Scams
The efforts taken to tackle pension scams and what more can still be done

Open finance
Is the pensions industry ready for a more 'open', integrated future?

Sustainability
Overcoming the barriers preventing pension schemes from responsible investment

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November 2020

PENSIONS Age

The leading pensions magazine

Interview: *Pensions Dashboards Programme principal, Chris Curry, explains how schemes can prepare*

Master trusts: *How the pandemic is affecting transfers into DC master trusts*

Small pots, big problems

The issues created by small DC pots for both provider and member

Case study: The Co-op pension scheme's multiple buy-ins in 2020

Editorial Comment

Sixth floor, 3 London Wall Buildings, London, EC2M 5PD

Patience has never been one of my virtues. Just writing this ed comment is taking far longer than it should as I anxiously keep refreshing news pages for updates on the American election result. I know the counts will take days to come in – certainly many hours – and yet here I am struggling to go 10 minutes before once again clicking refresh.

At least it provides a distraction from impatiently waiting for when restrictions from 'lockdown 2' may be relaxed – just another 27 days to go *[at time of writing]*, but who's counting?

I should be better at waiting by now; the pandemic has made the majority of this year an exercise in patience.

Those in the pensions industry already have plenty of practice with this. After all, its entire premise is waiting (and saving) now for monetary gains many years later, and the sector itself is often accused of being slow moving.

It certainly lived up to its reputation this past month, with the confirmation that the pensions dashboards will not be up and running until at least 2023.

With around 43,000 separate schemes' and providers' data to be included – the likes of which are incomparable to other countries' dashboard equivalents, as they tend to deal in the many hundreds, not the many thousands, as Pensions Dashboard Programme principal, Chris Curry, explains on page 44 – makes this timeline to launch understandable.

Understandable, but disappointing. Much has been said about the importance of getting the dashboards 'right' from the start to not lose user confidence, and having a realistic timetable, instead of false hope followed by a series of delays until all are fed up with its slow progress à la Crossrail, is the better approach.

But it's hard not to feel dismay that we have another few years to go on a project that initially came about in 2016. Especially as we all know the benefits the dashboards can provide are urgently needed now. Every day's delay is another day to the detriment of pension savers.

The timeline reminds me of that other big project the industry undertook, one which also came with concerns about the industry's ability to cope, and largely created the many small DC pots issue for the upcoming dashboards to assist with *[see on page 36 our cover story on small pots for more information]*, that of auto-enrolment.

Auto-enrolment took over a decade from conception to birth. We've all seen projections of how great an impact an extra 10 years of saving could have on pension pots – those much-needed extra years of saving were missed for a generation of workers.

Let's not see savers struggling with lost pension savings or not sure how much they have saved, much less how much more they need at retirement, with us knowing there's the solution underway, someday… We now have a timeline for creating the dashboards and we must not let it drift.

Potentially helping with dashboard implementation is an innovation to have already occurred throughout much of the financial sector, that of open finance. Making pensions 'open', allowing savers to actually feel ownership over their retirement money, should in turn generate feelings of increased individual responsibility for those savings, which is desperately required in these days of freedom and choice at retirement. Our feature on page 46 explains how the dashboard and open finance are complementary to each other.

However, the greatest kickstart to the dashboards project is of course the Pension Schemes Bill. With its goodies of dashboards and collective DC (CDC) legislation slowly making its way through parliament, its progress delayed further by a general election and global pandemic, we may be rewarded for our patience with another pensions bill this parliament. Pensions Minister Guy Opperman suggested this at last month's PLSA Annual Conference, with the future bill to provide legislation for DB superfunds.

We used to see industry-altering developments occur maybe once a decade or longer. Now we may see dashboards, open pensions, CDC and superfunds occur in reasonably quick succession.

Once finally launched, each of these advancements have the opportunity to innovate the industry and improve the lives of millions of future retirees. Make it worth the wait.

Laura Blows, Editor

COVER FEATURE

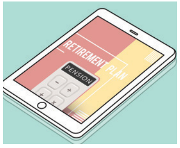
Theme: Working together

36

Small pots, big problems

Small pots are a hot issue in the ever-evolving pensions universe. Duncan Ferris delves into the world of small pots to find out why they are such a problem, what caused them and what can be done to resolve their issues

Highlighted features



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NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 14,481 (July 2019–June 2020) print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20). Our print circulation is around 300% higher than the next nearest title, and 500% higher than the third title.

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Dateline - October 2020

Rounding up the major pensions-related news from the past month

1 October The **Pensions Regulator (TPR)** calls on trustees to "build capacity" in assessing the long-term risks and opportunities presented by climate change. The call comes as the publication of implementation statements alongside schemes' annual reports and accounts becomes a requirement from today. Implementation statements will need to describe whether certain policies in a scheme's statement of investment principles (SIP) have been followed and disclose the trustees' voting behaviour.

7 October The **government** warns that it may not be feasible to implement Guaranteed Minimum Pension (GMP) conversion for public service pensions before the current interim solution period ends in April 2021, and is unlikely to be implemented until April 2024 "at the earliest". This comes as part of a consultation into how the government will continue to meet past commitments to public servants regarding the full indexation of public service pensions, including any GMP element.

8 October The second reading of the Pension Schemes Bill is complete and it will continue its progression through the **House of Commons**. MPs vote unanimously to allow the bill to have a second reading and therefore proceed to the committee stage, where clauses and amendments may be debated. Secretary of State for Work and Pensions, Thérèse Coffey, opened the second reading before three hours of debate between MPs. Pensions Minister, Guy Opperman, says the bill will "revolutionise" the UK pension landscape in building a "safer, better and greener system". Shadow Minister for Pensions, Jack Dromey, closes the bill's debate for Labour and states that the opposition will push for further measures in the committee stage: "The opposition will push for measures we want to explore: widening auto-enrolment (AE); better protection against pension scams; and ensuring that the dashboard is run in the public interest."

8 October The **Pension Protection Fund's (PPF)** probability of success of being at least 110 per cent funded by 2030 fell from 89 per cent to 83 per cent year-on-year, as of 31 March 2020, its annual report reveals. This represents its lowest probability of success since March 2010, when it was also recorded at 83 per cent. The PPF's funding ratio declined by 5.2 percentage points to 113.4 per cent due to the market turmoil in the weeks preceding 31 March 2020.

13 October The **Pensions and Lifetime Savings Association (PLSA)** calls for the introduction of a new regulatory framework around defined contribution (DC) decumulation and outlines its vision for what it may look like. Following a three-month consultation, the PLSA publishes its recommended framework to help pension schemes support their members' retirement decision making. The association calls for a statutory requirement for pension schemes to support their members when they are making decisions about how to access their pension savings. Its framework also outlines a set of minimum standards for communication and engagement with savers, alongside product design and governance.

14 October Defined benefit (DB) transfer activity fell to a record low in September, whilst transfers flagged as at risk of scam activity hit a new high, according to the **XPS** Transfer Watch. The group's Transfer Activity Index fell from an annual equivalent of 0.67 per cent of eligible members to 0.54 per cent. The XPS Red Flag Index rose by 11 percentage points in September, with 62 per cent of transfers covered by XPS' scam protection service being flagged as at risk, compared to 51 per cent in August.

15 October Pension industry organisations come out in support of the HMRC P800 solution in response to the **government's** consultation on pensions tax relief administration, emphasising the need to protect existing tax benefits. The consultation sought to gather views on the operation of the main methods of administering

For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

pensions tax relief, net pay and relief at source (RAS). In their responses, industry experts stress the need for a specific focus on the net pay anomaly issue, as well as the need to protect existing tax incentives.

16 October TPR launches its 15-year corporate strategy, reflecting a shift from DB to DC pension saving, and building on the regulator's progression to be a "clearer, quicker and tougher" regulator. It has been published in the form of a discussion paper, with meetings with key stakeholders also planned ahead of the publication of a final strategy in the new year. The strategy analyses different groups of savers by generation to recognise the different circumstances and risks facing each group in relation to their pensions.

19 October The **government** announces a number of consultations on simpler annual benefits statements' timing and design, as its consultation response confirms plans to push ahead with legislation. In particular, the government confirms plans for a consultation on a mandatory approach to simpler statement templates for DC schemes used for AE later this year. This will take the two-page statement template originally developed during the course of the 2017 review of AE, and included in the initial simpler statements consultation, as the starting point in considering the length, content and design, before working with the industry on the detailed design.

20 October The **government** is seeking to overturn the four Pension Schemes Bill amendment votes it lost in the House of Lords in the summer by removing them from the bill. In a House of Commons Notices of Amendments publication, Pensions Minister, Guy Opperman, outlines the removal of the House of Lords' amendments. The amendments relate to commercial pensions dashboards, transaction facilities on dashboards, reporting on fairness to members of collective defined contribution (CDC) schemes, and open DB schemes getting special treatment.

Editorial credit: Caron Badkin / Shutterstock.com

21 October TPR outlines a series of 'gateway principles' in new guidance for trustees and sponsoring employers of DB pension schemes considering a transfer to a superfund. Under the guidance, trustees are expected to demonstrate why a transfer is in the best interest of members, as well as how it would meet a series of 'gateway tests'.

22 October The **Old British Steel Pension Scheme** secures a £2bn buy-in with the Pension Insurance Corporation (PIC), guaranteeing future payments for all members at or above PPF levels. The scheme, which has over 30,000 members, initially entered PPF assessment in 2018 following the restructuring of Tata Steel UK. However, the PPF states that as the scheme progressed through the assessment process, its funding position was found to be better than originally anticipated.

28 October The Pensions Dashboards Programme (PDP) publishes the timeline for the development of the dashboard, which is expected to be available to savers from 2023. The timeline, published alongside the findings of recent industry research, was agreed following "extensive" engagement with government, regulators, industry, suppliers and consumer advocates. The PDP confirms that phase one of the process, programme setup and planning, is underway. In 2023, schemes and providers will be compelled by both legislation and Financial Conduct Authority rules to connect to the dashboard ecosystem, which is expected to result in "sufficient findable pensions".

30 October A total of £2.3bn was withdrawn from pensions flexibly in Q3 2020, bringing the total value of flexible withdrawals since the introduction of pensions freedoms in 2015 to over £37bn, according to **HMRC**. The £2.3bn withdrawn represents a 2 per cent year-on-year decrease in comparison to Q3 2019, but remained on par with the total observed in Q2 2020. Around 347,000 individuals took flexible withdrawals from their pensions in Q3 2020, a 6 per cent year-on-year increase and a 2 per cent rise in comparison to Q2 2020.

News focus

Pensions dashboards expected to launch in 2023

The Pensions Dashboards Programme's (PDP's) latest update on pensions dashboards has revealed that it expects the services to be available some time in 2023, following three preparation phases to their introduction. Although the "clear and reasonable" timeline was welcomed by some, other industry figures described the further delay to the project as "disappointing"

The PDP has published the timeline for the development of the dashboards, which is expected to be available to savers from 2023.

The timeline, published alongside the findings of recent industry research, was agreed following "extensive" engagement with the government, regulators, industry, suppliers and consumer advocates.

The PDP, which was set up by the Money and Pensions Service (Maps), confirmed that phase one of the process, programme setup and planning, is underway.

Upcoming steps for this phase include agreeing the architecture of the dashboards, completing procurement for a supplier for the digital architecture and setting the first version of data standards, expected in December 2020.

Phase two, develop and test, will see the PDP working with the chosen suppliers to begin building, integration and testing of the digital architecture, and is expected to commence from 2021.

In 2022, the programme is expected to move to phase three, to connect volunteer schemes and providers to the service using real data, before phase four, staged onboarding, in 2023.

At this point in 2023, schemes and providers will be compelled by both legislation and Financial Conduct Authority rules to connect to the dashboard ecosystem, which is expected to result in "sufficient findable pensions so that dashboards will be ready to be offered to consumers".

The transition to 'business as usual' has not yet been predicted, although it is expected to see a "high level of coverage" of people's pensions, meaning that the service is running in "a steady state" and can transition to a maintenance arrangement.

Commenting on the update, Pensions Minister, Guy Opperman, said: "Pensions dashboards will revolutionise retirement saving, which is why it's vital we get them right.

"I'm encouraged by the progress on the project to date, the sensible timetable for development incorporating testing, rigour and refinement, and the continued collaboration driving this forward.

"Bringing information to savers at the touch of a smartphone screen will transform how we all think about and plan our pensions, improving financial resilience for later life."

The PDP's latest update also included the findings from its recent call for input on data standards, with respondents citing the inclusion of estimated retirement incomes as the most challenging aspect of pension dashboards and noting concerns around the risk of inconsistent statements.

Alongside this, the group have also published findings from the ministerial letter written to schemes in June, with around half of respondents expecting to be able to have some of their data ready within 18 months of standards being set.

The programme confirmed that it will consolidate findings from this industry input and recent research undertaken with PricewaterhouseCoopers in order to publish the first version of the data standards before the end of the year, as outlined in the core timeline.

PDP principal, Chris Curry, stated: "As we set out a timeline for the delivery of pensions dashboards, which will enable people to see their pensions information online, securely, and in one place, we are grateful for the industry's valuable input to date, which has helped us develop a robust roadmap for development.

"While dashboards are a simple concept, the delivery of dashboards will be complex and is reliant on collaboration between the PDP and many other organisations across government, regulators, dashboard providers, pension schemes and providers to complete actions at a specific time.

"The first version of the data standards, which will be published in December, will enable industry to take action and take the next steps in making pensions dashboards a reality."

The update highlighted a number of objectives for the next six months, including finalising requirements and seeking approval to commence the formal procurement for suppliers to deliver the dashboards' digital architecture.

The timeline for the dashboards' development was met with a mixture of disappointment and understanding from the pensions industry.

Aegon head of pensions, Kate Smith, said that although the pushing back of the timetable by four years was "disappointing", the delay was due to the "extremely complex but worthwhile challenge" of implementing dashboards.

She added that it was crucial the extra time the industry had to prepare due to the delay was not wasted and was used to ensure the staging process was short to "gain critical mass quickly".

The People's Pension director of policy, Phil Brown, said: "We welcome that we now have a clear timetable for when the dashboard project will go live. There is much work to do before millions of consumers are able to answer the simple question of 'how much are my pensions worth and where are they?' but this long anticipated announcement is a very important step in the right direction."

Pensions and Lifetime Savings Association (PLSA) director of policy and research, Nigel Peaple, was also positive, stating that the "clear and reasonable project timeline" would help its members to have "the certainty they need to prepare for onboarding".

However, some industry members reacted negatively to news of the delay, raising concerns about what the slow progress of the dashboards might mean for members and the technological infrastructure of the project.

Royal London pension specialist, Helen Morrissey, said: "After already progressing at a snail's pace for some time it is hugely disappointing to see this project further delayed. Of course, such projects are complex but the potential that dashboards have to help people take control of their retirement planning is huge and must be grasped. Every delay risks letting down a generation of savers."

Smart Pension director of policy, Darren Philp, added: "While we understand the complexities involved in delivering dashboards, we would like to see the programme go quicker and believe that the saver shouldn't have to wait until 2023 to have the beginnings of the dashboard.

"Technology is changing the way we think about pensions and the industry needs to develop and invest in the infrastructure that makes this stuff second nature."

Written by Duncan Ferris and Sophie Smith

NEWS IN BRIEF

Pensions Minister, **Guy Opperman**, has called for pension schemes to increase their investments in renewable energy sources to help the UK achieve a net-zero economy. In an essay series published by the Chartered Banker Institute and the Social Market Foundation, Opperman said that if the "productive power" of UK pension funds is "unleashed" by financing green tech and energy, they can be at the forefront of seizing sustainable opportunities.

Action Fraud received 166 reports of pension scams between 24 March 2020 and 25 September 2020, the government has revealed. In response to a parliamentary written question, Conservative MP for Old Bexley and Sidcup, James Brokenshire, revealed the number of reports since the start of the Covid-19 outbreak and said that the government was "committed to protecting people from pension scams".

The proportion of self-employed people saving into private pensions fell from 48 per cent to 16 per cent between 1998 and 2018, according to a report from the **Institute for Fiscal Studies**. It found the drop in participation was driven by groups such as the self-employed who were earning over £500 per week, with the proportion of this cohort saving into a private pension dropping from 70 per cent to 24 per cent.

One in four people have either stopped or reduced their pension contributions in order to make ends meet since the onset of the Covid-19 crisis, according to research by **Hargreaves Lansdown**. The firm found that a further 8 per cent of people plan to cut or reduce their contributions in the future.

VIEW FROM TPR

Keeping pension savers' money secure is one of the five strategic priorities we laid out in our 15-year corporate strategy.

Our enforcement team is committed to using every tool available to ensure criminals aren't only punished, but the money stolen from schemes is returned.

Since September, our court action under the Proceeds of Crime Act 2002 has seen £578,852 set to be returned from the schemes it was stolen from.

In a first for TPR, Patrick McLarry, 72, from Bere Alston, Devon, who defrauded the pension scheme of a charity dedicated to supporting vulnerable adults, was told by a judge he will have to stump up the £250,000 he stole – adjusted for inflation.

And, at the end of October, criminal accountant Roger William Bessent, 67, of Lytham St Annes, Lancashire, was ordered to return £274,733 to the Focusplay Retirement Benefit Scheme he had swindled it from. The judge also told Bessent he had to hand over the £9,861 in his bank accounts within seven days.

Both men were given three months to settle the final amounts or face jail terms – on top of those already handed down for their crimes. Importantly, they would also still be liable to hand over the money.

These two cases should be seen by the industry that our clear, quick and tough approach is the new normal. They are evidence of our commitment to make use of every tool available to us to bring pension criminals to justice and ensure savers are not left out of pocket from their crimes.

TPR executive director of frontline regulation, Nicola Parish

The Pensions Regulator
Making workplace pensions work

PLSA AC 2020: Further pensions bill expected in current parliament

Speaking at the Pensions and Lifetime Savings Association (PLSA) Annual Conference 2020, Pensions Minister, Guy Opperman, stated that another pensions bill is expected in this parliament after the Pension Schemes Bill becomes law. The virtual conference also held sessions from Stephen Timms, Martin Lewis and The Pensions Regulator on the current hot pensions topics

Pensions Minister, Guy Opperman, has said that he expects there to be a further pensions bill in this parliament after the current Pension Schemes Bill becomes law.

When asked when the statutory regime for defined benefit (DB) superfunds would likely be legislated for at the PLSA Annual Conference 2020, Opperman stated: "I remain of the view that there will be a further pensions bill in this parliament."

The Pensions Minister said "one significant element of that future pensions bill would constitute to superfunds legislation", adding that a "properly authorised and regulated superfund sector" could "play an important role in the way forward".

Opperman continued: "The interim DB superfund regime is clearly a good guide for the future but there is no guarantees that it will be the final product. We are working our way through that. I very much hope we will be proceeding with that relatively quickly. There was no way that I could have included the superfunds in this bill, the bill is already very substantial.

"The government has to come to a view on what the long-term regime looks like, working with regulators. Then has to draft the statutory process and then take it through parliament. That will take some time.

"It would be substantial; I don't think there's any doubt that we could do superfunds without it being a substantial piece of legislation."

Opperman added that the uncertainty caused by the coronavirus pandemic has provided "a stark reminder" that the future strength of employer covenants cannot be taken for granted.

"This is a policy problem that the current arrangements simply do not solve," he said.

"Without action there is a possibility that more pension schemes may face suffering a reduction in benefits following an insolvency event.

"At this difficult time, it is important now more than ever that the government develops new solutions for employers and schemes who cannot afford insurance buyouts now or in the foreseeable future. This is where I believe superfunds can help."

Later that day, Work and Pensions Committee (WPC) chair, Stephen Timms participated in a session on the issue of pension scams.

He highlighted the fragmentation of responsibility between regulatory bodies on pension scams work as a "significant" part of the problem.

Timms explained that the WPC inquiry had heard "lots of worries" around the effectiveness of action fraud in this area in particular, with many respondents calling it "inaction fraud".

He emphasised that out of a half a million reports to Action Fraud in this area, half are classified as information reports.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

This is despite a review of around 100,000 of these reports in 2018, which found that almost a third of such information reports merited a police investigation, whilst a further quarter of this subset were subsequently solved by police action.

Timms stated: "It is very worrying that so many of the issues referred to Action Fraud could be resolved by the police are not in fact actioned at all.

"Action Fraud has a very important role, but so does The Pensions Regulator (TPR), The Pensions Ombudsman, the Financial Conduct Authority (FCA) and the police.

"All of them are involved, and it does look as though that fragmentation of responsibility in this area is a significant part of the problem that we are facing."

The previous day, in a session on promoting financial wellbeing, Nest customer engagement director, Mark Rowlands, highlighted data from the first week of October indicating that there was an increase in employers cutting pension contributions.

Rowlands commented that the Job Retention Scheme had had a "very significant buffering effect", meaning that we have yet to witness "the full consequences" for employer contributions.

However, he also pointed out that contribution schedules from both employers and members had remained relatively stable over the period from March to August and beyond, stating that Nest had "not seen any significant changes in employer behaviour" during this time.

He also highlighted that Nest had seen a "very significant reduction in individual leavers, who are voluntarily leaving employment, and new enrolment", suggesting that "one of the consequences of the pandemic has been to significantly reduce job turnover".

However, the number of employees paying into their pensions was shown to have slid a little during the period, as data revealed that scheme opt-out rates stood at 12 per cent between March and August, which Rowlands stated was higher than the usual 9-10 per cent.

Despite this, on the Friday of the conference, TPR chief executive, Charles Counsell, noted that there had not been a "significant or unusual spike" in missed pension contributions for auto-enrolment (AE) schemes.

Speaking on the measures that the regulator had introduced in response to the Covid-19 pandemic, he stated that "the vast majority of employers" have continued to meet their duties as they had been before coronavirus emerged.

Counsell added that the regulator had also not seen a rise in employers avoiding their defined benefit responsibilities, with around 200 schemes, or 3-4 per cent, seeking a delay to deficit repair contributions (DRCs).

This is below the 10-15 per cent that TPR had originally estimated would seek delays, while the vast majority of the requests were deemed to be appropriate.

One of the keynote conference speakers, The Money Saving Expert executive chair, Martin Lewis, called for more frequent prompts to be included throughout the AE process to avoid disengaging savers.

Lewis explained that the push economics behind AE, whilst effective, had essentially disengaged individuals, meaning they do not feel like an active participant in the pension process.

He continued: "Someone who set up a pension for themselves is always going to be more engaged than someone who has done it by default. So there needs to be more pushes along the way, about how we keep AE going and how we push to engage people to it."

Lewis suggested that more interventions with different age groups could engage savers with their pension, warning however that there must also be an awareness to the risk of pension scams.

He stated: "The small pot issue is a difficult one, the regulatory burden of getting to move a pension from one place to another and the hideous scams that are going on to try and transfer a pension when they shouldn't – all mean there are really strong conflicting issues going here.

"We need an improvement in the portals and authorities so that people understand what is legitimate and what isn't, but I don't think we've dipped in it enough.

"My hope is over the next 10-15 years of AE, there will be nodal points where we get people to consider what's happening with their money."

In the conference's closing session, journalist and broadcaster, Andrew Neil, said the government was "looking at" pension tax relief reform, which he estimated could bring in around £10bn.

Neil stated that although tax rises to pay for the deficit exacerbated by Covid-19 were unlikely, reforms to pension tax relief "could be made".

"There are some reforms that could be made, for example to pension tax relief, which the government is looking at. It would bring in a lot of money," Neil said.

"If you were to unify it round the 20 per cent basic rate of tax relief rather than the top rates, it could bring in about £10bn. Nice for the government to have."

Written by Sophie Smith, Duncan Ferris and Jack Gray

VIEW FROM THE PLSA

Anticipating the future is key to ensure schemes meet the challenges of a changing world and have the right policy settings to achieve sustainable growth. The PLSA's new *Facing the Future* survey, launched at our first ever virtual annual conference, aims to do just that.

Senior pension executives and trustees told us that consolidation, climate change, technology and saver engagement are the most significant future trends the pensions industry will face over the next five years.

Forty-eight per cent of members think industry consolidation was the most significant future trend. It is widely expected that assets under management will continue to grow, and as funds undergo value for money assessments they will seek out greater economies of scale.

Climate change and ESG were also identified by PLSA members as the second major key issue, as 64 per cent said pension funds should help tackle climate change and ESG issues.

The third trend was technology. Half of member firms surveyed were currently investing in their technology or planning to do so over the next 12 months.

When asked which initiatives could be the most effective in improving member engagement, over half (53 per cent) of respondents identified the pensions dashboards.

From this research, it remains vital that workplace pension schemes face the future to drive better outcomes for savers when they reach full or semi-retirement.

PLSA chief executive, Julian Mund

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Govt pushes ahead with mandatory simpler statement plans

Following its consultation, the government has confirmed that it will push ahead with legislation for mandatory simpler statement plans for defined contribution (DC) schemes used for auto-enrolment (AE) later this year, while also announcing plans for further consultations

The government announced a number of consultations on simpler annual benefits statements' timing and design, as it confirmed plans to push ahead with legislation.

In particular, it announced a consultation on a mandatory approach to simpler statement templates for DC schemes used for AE later this year.

This will take the two-page statement template originally developed during the course of the 2017 review of AE, and included in the initial simpler statements consultation, as the starting point in considering the length, content and design, before working with the industry on the detailed design.

In its response, the government explained that whilst the direction of travel amongst schemes is broadly shifting towards shorter and simpler statements, it believes this progress has been too slow and is not delivering consistent results.

Furthermore, it stated that providers have not voluntarily adopted the freely-available statement templates developed in 2017 "as had been hoped", noting that any approach to simplified statements that depends on voluntary adoption is "unlikely to drive timely change".

Considering this, the government argued that an initial focus on DC schemes used for AE was a "pragmatic and sensible approach", which recognises the challenges that differing scheme requirements present for a standardised approach.

It noted that whilst extending the approach should be subject to further work, the principles behind shorter, simpler

statements can nonetheless be applied to other schemes, emphasising that it remains the long-term ambition of the government to improve consistency across all schemes.

Considering this, the government confirmed that, following the implementation of secondary legislation required for DC schemes used for AE, it will evaluate the impact to inform a further consultation on how a similar approach for all remaining schemes could be delivered.

Meanwhile, the government warned it may not be feasible to implement Guaranteed Minimum Pension (GMP) conversion for public service pensions before the interim solution period ends in April 2021, and is unlikely to be implemented until April 2024.

This comes as part of a consultation into how the government will meet past commitments to public servants regarding the full indexation of public service pensions, including any GMP element.

The consultation, which closes on 30 December 2020, considers the policy options available to the government following the interim solution, which is currently expected to be in place until 5 April 2021.

Written by Sophie Smith

VIEW FROM AMNT

In the film *Robin Hood, Prince of Thieves*, Alan Rickman, as the crazed Sheriff of Nottingham, issuing dire threats against those helping Robin Hood says the memorable parting line: "And cancel Christmas."

Boris Johnson used a similar line when trying to encourage the public to follow the Covid-19 restrictions, saying: "I don't want to cancel Christmas."

Christmas time is of prime importance to people in the UK, whether from a religious or secular standpoint, as the moment when families come together in a communal spirit of goodwill.

Pension funds and trustees have had a very challenging time over the past year and may not feel in the 'Christmas spirit'. However, this is the moment when there is a need to come together as a pension community invested in ensuring all pension fund members can enjoy Christmas knowing there is a bright future ahead.

A time for pension trustees to look at all the archaic practices maintained by past legislation that discriminate against certain of their members, particularly women, such as state abatement, and consider, that to provide Christmas cheer, these issues need to be addressed. The historian R.H Tawney argued that "it is a broad democratic 'equality of condition' that enables citizens of all walks of life to hold their heads up high and to consider themselves participants in a common venture".

Merry Christmas!

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

TPR outlines 'gateway principles' for DB superfund transactions

In new guidance aimed at those considering transferring to a defined benefit (DB) superfund, The Pensions Regulator (TPR) detailed its 'gateway principles' for trustees and sponsoring employers to consider before making the switch

TPR has outlined a series of 'gateway principles' in new guidance for trustees and sponsoring employers of DB pension schemes considering a transfer to a superfund.

Under the guidance, trustees are expected to demonstrate why a transfer is in the best interest of member sand how it would meet a series of 'gateway tests'.

The gateway tests outlined in the guidance explain that a transfer to a superfund should only be considered if a scheme cannot afford to buyout now, and that a transfer to a chosen superfund must improve the likelihood of members receiving full benefits.

Furthermore, it states that a transfer to a superfund should only be considered if a scheme has no realistic prospect of buyout in the foreseeable future, owing to potential employer cash contributions and the insolvency risk of the employer.

The guidance confirmed that a transfer to a superfund will be considered a new category of clearance Type A event and TPR will expect ceding employers to apply for clearance in relation to a transfer from their scheme to a superfund.

The regulator stressed that the gateway principles will be a "key area" when considering a clearance application, noting for transactions where a clearance application is not appropriate, it will still expect notification of the transaction and engagement from both the ceding scheme and superfund.

It also stated that the superfund will be expected to demonstrate that it will continue to meet TPR's expectations regarding capital adequacy, as this will be a key consideration of the regulator's assessment as to whether any detriment has been adequately mitigated.

In addition, the guidance encouraged trustees to obtain appropriate professional advice in considering and undertaking a superfund transfer, including "appropriate and proportionate" actuarial and professional covenant advice.

Pension industry organisations welcomed the launch of the guidance, although concerns around covenant assessment are emerging.

"If buyout isn't an option, now or in the future, then the focus is rightly on the likelihood of a better outcome for members after transferring to a superfund," said Dalriada Trustees professional trustee, Charles Ward. "While the guidance does advocate a proportionate approach to assessing this, based on the resources available to the scheme and taking into account the work already done by TPR on superfund strength, it will require detailed modelling of the interaction between future investment and covenant risks."

Written by Sophie Smith

VIEW FROM THE ACA

ACA has called for effective communications, coupled with simplification of pensions tax rules, to help millions of public service employees understand and value their pensions as part of McCloud age discrimination remedy.

Millions of teachers, nurses, civil servants and local government workers will shortly be faced with a complex array of information and decisions to make about their pensions, as the government decides how to respond to the McCloud judgment.

Following its defeat in the courts on the issue of age discrimination in public sector pension reform, the government published three consultations in July 2020 on how best to respond to the judgment.

Our response highlighted that for many members the decision as to which scheme to be part of for the period between 2015 and 2022 would not be straightforward. The right answer may depend on many factors such as age, health, retirement plans and/or expected career path in public service (and in some circumstances pensions tax rules).

It will be important therefore that this is clearly understood by members so that they fully value the pensions they are earning while in public sector employment. Given the complexity of the issues, it will be vital that the communications and guidance for this exercise are well structured and carefully drafted. Indeed, an effective communications exercise may in fact help members in public service schemes better appreciate what their schemes provide.

Association of Consulting Actuaries (ACA) chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Flexible pension withdrawals total £2.3bn in Q3 2020

HMRC's update on flexible pension withdrawals revealed that the total value of withdrawals remained the same as the previous quarter, although they had fallen slightly in comparison to Q3 2019. It also showed that HMRC had repaid a total of £39.4m to people who overpaid tax when flexibly accessing their pension savings in Q3 2020

A total of £2.3bn was withdrawn from pensions flexibly in Q3 2020, bringing the total value of flexible withdrawals since the introduction of pensions freedoms in 2015 to over £37bn, according to HMRC.

The £2.3bn withdrawn represents a 2 per cent year-on-year decrease in comparison to Q3 2019, but remained on par with the total observed in Q2 2020.

Around 347,000 individuals took flexible withdrawals from their pensions in Q3 2020, a 6 per cent year-on-year increase and a 2 per cent rise on Q2 2020.

HMRC noted that the quarter-on-quarter increase was contrary to seasonal patterns, which "may be attributable" to the impact of the Covid-19 pandemic.

The average amount withdrawn in Q3 2020 was £6,700, a 7 per cent fall from the same months in 2019.

During July, August and September, HMRC repaid a total of £39.4m to people who overpaid tax when flexibly accessing their pensions.

"The pension freedoms have been with us for several years now and it is absurd that this overly complex system remains in place," commented Royal London pension specialist, Helen Morrissey.

"HMRC overtaxes people who then need to fill out any one of three different forms to reclaim this money back. In the last quarter we saw a rise in the number of people looking to access their pensions flexibly – this may well be due to the current Covid-19 pandemic.

Editorial credit: Ink Drop / Shutterstock.com

"The last thing they need at such a difficult time is to be over-taxed and then have to reclaim it – it is a system in urgent need of reform."

In other news, the government published a statement of policy intent on plans to "nudge" people towards taking pensions guidance to try and bolster saver protections.

The proposals, which follow successful trials, will require pension schemes to steer members towards taking Pension Wise guidance when they looking to access their pension.

The duty to record any opt-outs will sit with the trustees and managers, although the regulations are expected to specify that a member stating they have received the guidance is sufficient evidence to allow a transfer or access to their pension.

The government clarified that it wants to allow trustees and managers "flexibility" in choosing a process that works best for them, clarifying however, that trustees and managers will be required to take "proactive steps" to facilitate appointments for members.

The Pensions Regulator confirmed that it would be introducing guidance for trustees to help implement the measures.

Written by Jack Gray and Sophie Smith

Can your fiduciary manager evolve your portfolio in real-time?

Sasha Mandich highlights the importance of individually tailored fiduciary management strategies incorporating dynamically managed asset allocations, intelligent de-risking strategies and efficient implementation

As recent Covid-19 volatility has illustrated, markets can change rapidly. This has reaffirmed the need for fiduciary managers to respond in real-time and implement an agile approach to managing assets.

Is your investment journey able to weather the storms?

Creating a tailored investment journey that can weather any storm requires the asset allocation to be dynamically managed. This is particularly important in the current environment – where new risks continue to emerge and speed is of essence when looking to capture attractive investment opportunities.

Schemes can mitigate the impact of large market drawdowns through the use of appropriate downside protection strategies. Towards the end of 2019, such strategies were very attractively priced, allowing our clients to buy insurance against a downturn for a fraction of the cost that same protection would have cost in March of this year.

Similarly, most trustees recognise that they can't wait for three years to consider new opportunities. That is why it is critical to have a consistent and transparent investment process that can allow investors to introduce new ideas into their portfolios in a timely and cost-efficient manner.

Is your provider incorporating intelligent de-risking strategies?

For schemes looking to experience a smooth and safe funding journey, it is important to adopt an informed, market-aware de-risking process and evolve the portfolio in real-time. Pension schemes should consider moving to a multi-dimensional approach to de-risking that involves:

1. Allocating to lower-risk forms of fixed income (for example, investment-grade bonds); or
2. Reducing the level of leverage within the liability-hedging portfolio; or
3. Changing the composition of the growth portfolio to target a lower return above Gilts.

Whether growth assets are restructured or sold down depends on a number of factors, such as the market outlook, the driver of the improvement in the funding level and the valuation of the low-risk fixed income assets being purchased.

Does your provider practice efficient implementation?

Informed de-risking can only be made possible through a proprietary system. Firstly, that can value your assets daily by having visibility into every single one of your holdings. Secondly, execute the required trades swiftly when the triggers are hit.

Dedicated implementation teams are critical, ensuring that the best ideas are quickly and efficiently incorporated into your investment portfolio, whilst reducing transaction costs.

How responsible are your ESG investing practices?

The responsible investing landscape is continuously evolving. It is important to have a disciplined approach, integrating environmental, social and governance (ESG) factors and principles of good stewardship throughout the entire investment process. Providing transparent reporting to demonstrate responsible investing policies and procedures can help eliminate the risk of greenwashing.

The bottom line

Navigating through uncertain market conditions can be challenging – but it doesn't need to compromise your scheme's funding goal. It is crucial to ask the following questions – Is your investment journey able to weather the storms? Is your provider incorporating intelligent de-risking strategies? Does your provider practice efficient implementation? How responsible are your ESG investing practices?

An individualised approach to fiduciary management will ensure that your investment journey is customised to YOUR needs – that is why we have created Russell Investments iFM – fiduciary management tailored just for you.

Written by Russell Investments director, UK institutional, Sasha Mandich

In association with Russell Investments

Important information

VIEW FROM THE PMI

The Work and Pensions Committee has just carried out a formal investigation into pension scams.

Six years after George Osborne announced his 'freedom and choice' reforms, it is now surely right to weigh the benefits of unprecedented flexibility for decumulation options against the increased risk of poor decision making and the specific threat posed by scams.

Although PMI's recent member survey did not report an increase in scam activity during 2020, this may change over time. With so many people made redundant or furloughed, it would be reasonable to expect many members to experience cashflow problems and for this to lead to attempted liberation fraud. Particular vigilance will be necessary over the winter months.

It is becoming increasingly difficult for trustees to manage suspicious transfer applications and the High Court's decision in overturning an Ombudsman's ruling in the *Hughes v Royal London* case demonstrated that trustees continue to have significantly limited powers in law. However, there is one proposed change that would do much to address this. The new Work and Pensions Committee chair, Stephen Timms, has proposed ending the statutory right to transfer. This principle, enshrined in the Pensions Act 1993, has made it hard for trustees to refuse a transfer application even when they have doubts about the receiving scheme.

Giving trustees the power to refuse a transfer application would not in itself end pension scams, but it would surely represent a significant improvement industry wide.

PMI director of policy and external affairs, Tim Middleton

PPF reveals fall in funding ratio and probability of success

The Pension Protection Fund's (PPF's) latest annual report showed a decline in its funding ratio, probability of success and fund reserves. Despite this, its investment return remained steady and assets under management increased, with the PPF insisting it was well-placed to protect members

The PPF's probability of success of being at least 110 per cent funded by 2030 fell from 89 per cent to 83 per cent year-on-year, as of 31 March 2020, its annual report has revealed.

This represents its lowest probability of success since March 2010, when it was also recorded at 83 per cent.

The PPF's funding ratio declined by 5.2 percentage points to 113.4 per cent due to the market turmoil in the weeks preceding 31 March 2020.

Its report also revealed the pensions lifeboat's reserves fell by £1bn over the year, to £5.1bn, while the benefits it paid out increased by £85m to £860m.

Assets under management increased by £4bn to £36.1bn, although its actuarial liabilities also rose, by £5.6bn to £28.7bn.

The PPF's investment return remained steady at 5.2 per cent, while the amount of levy it collected increased by £6m to £567m.

Commenting on the report, PPF chief finance officer, Lisa McCrory, said "Our strategy is built to withstand periodic market shocks. Our long-term, low-risk investment approach and our hedging programme performed as intended, protecting the PPF and limiting the impact of market turbulence.

"While our reserves decreased year-on-year, we've seen a good recovery in the current financial year. We expect the macroeconomic situation to be tough for the foreseeable future but we're confident in our ability to protect all current and future members."

LCP partner, Jon Wolff, stated that the report was a reminder that the PPF "has multiple levers to pull when times get tough".

"They have clearly decided not to let the levy take the strain," Wolff continued. "Instead they are prepared to live with a significantly reduced probability of reaching their long-term funding target.

"Much of this deterioration is driven by an expectation of increased claims arising from the economic impact of the Covid-19 pandemic. It seems likely that they are assuming over £1bn of additional claims in this regard."

Wolff also warned that the plan to align the Retail Price Index (RPI) with the Consumer Price Index including owner occupiers' housing costs (CPIH) would "not help" the PPF.

"This change alone could cost the PPF more than £600m in reserves if it were to happen in 2030, and more if the Treasury opted for 2025 implementation," he said.

Willis Towers Watson Retirement Practice director, Joanne Shepard, added: "The fall in the PPF's funding level over the year to 31 March, from 118 per cent to 113 per cent, is much smaller than that experienced by many pension schemes."

Written by Jack Gray

Old British Steel Pension Scheme secures £2bn buy-in with PIC

While progressing through the Pension Protection Fund's (PPF's) assessment process after entering it in 2018, the Old British Steel Pension Scheme's (OBSPS's) funding position was found to be better than originally thought

The OBSPS has secured a £2bn buy-in with the Pension Insurance Corporation (PIC), guaranteeing future payments for all members at or above PPF levels.

The scheme, which has over 30,000 members, initially entered PPF assessment in 2018 following the restructuring of Tata Steel UK.

However, the PPF stated that as the scheme progressed through the assessment process, its funding position was found to be better than originally anticipated.

Scheme trustees subsequently worked with PIC to establish whether there were sufficient funds to support a buyout, and crucially, to improve members' benefits above those payable by the PPF, with rumours of the negotiations emerging last month.

Structured initially as a buy-in transaction, the OBSPS will go through a period of reconciling member benefits in order to calculate uplifts where applicable, with the overall benefits guaranteed by PIC within a buy-in structure.

This is predicted to be completed towards the end of 2021, when it is expected that the scheme will exit the assessment process and complete a buyout.

The PPF confirmed that, until that point, members will continue to receive their benefits from the scheme in line with its own compensation levels, and can be "reassured" they remain protected by the PPF.

Open Trustees Limited, who has represented the scheme since March 2018, was advised throughout the transaction by Barnett Waddingham and Hogan Lovells, whilst PIC was advised by HSF.

Commenting on the transaction, Open Trustees managing director, Jonathan Hazlett, stated: "We are delighted to have entered into this buy-in policy with PIC.

"This transaction will eventually see OBSPS members receive benefits either at the same PPF level as those currently provided or, for many members, an uplift above that amount.

"It has been difficult for the OBSPS members over the past few years.

"Whilst the PPF provides a valuable safety net and a significant level of protection, many members will now receive higher benefits than they might otherwise have expected.

"OBSPS members can take comfort that their benefits will be looked after by an insurer that is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority, as well as being committed to the highest levels of customer service."

PIC head of origination structuring, Uzma Nazir, added: "This is a significant transaction, guaranteeing the benefits of the more than 30,000 pension scheme members who have faced a long period of uncertainty about the level of their benefits, and providing many with an uplift over PPF levels.

"We are delighted to have been able to work so closely with the trustee and Barnett Waddingham and ultimately deliver what was required in the biggest and most significant transaction of the year."

Meanwhile, the Ibstock Pension Scheme completed a £340m buy-in transaction with Just Group, securing the benefits of more than 1,800 pensioners and over 50 per cent of the scheme's total liabilities.

Just said the move provided further security to the scheme's members and represented a "significant step" in the brickmaker's strategy of de-risking its pensions exposure.

Trustees were advised by Lane Clark and Peacock (LCP), Buck, and Addleshaw Goddard during the transaction, while Just was advised by Pinsent Masons.

BESTrustees director and Ibstock Pension Scheme chair of trustees, Rachel Tranter, said: "I am delighted to have been able to lead the trustees of the Ibstock Pension Scheme to take practical and cost-effective steps to improve the security for all members of the scheme.

"Just provided clarity during a time of huge global uncertainty and our advisers skilfully guided us through the process to a successful conclusion; we always felt in safe hands and we're pleased with the end result."

Written by Sophie Smith and Duncan Ferris

Fixed on fairness

The People's Pension's approach to member communications

It's a commonly held notion that people fear what they don't understand. But for anyone to miss out on getting the most out of their pension, just because they don't understand this highly valuable asset, seems wholly unfair.

We know many don't understand what pensions are all about and how they work. So, helping people make sense of them, and encouraging them to engage and stay interested is really important. It's the reason we and our trustees at The People's Pension firmly believe communications must always be clear and straightforward.

As an industry, it is our job to demystify the complicated and dispel the belief that only the highly financially literate can understand pensions.

For us, it's vitally important we continue to work towards making all communications more accessible for everyone, including those with disabilities – for those with low literacy levels, or if English is not their first language (17 per cent of our 5.1 million members are born outside the UK). 'Everyone' includes those who are more vulnerable, perhaps because they have dementia, or have been recently bereaved. In addition, the effects of Covid-19 mean more people have become financially vulnerable too, through furlough, redundancy, fear of insolvency, and the risk of fraud and scams. Pension savers have been given increased freedoms that further exposes them to substantial risk if they struggle to understand pensions. That's why raising awareness of scams is important, as our recent report with The Police Foundation[1] highlights.

Then there's the huge number of people – 940,000 – who are turning 55 this year[2]. The worry is they could potentially be placed in a more vulnerable position if they feel compelled to start using their pension savings earlier than they'd planned and don't seek professional advice. There's much evidence, including from the Money and Pensions Service, that people leave retirement planning to the last minute or, most worryingly, don't do it at all[3].

So the knock-on effect of failing to fully understand the way a pension pot works could be individually very significant, and every effort should be made to help people understand why it's important to plan and prepare.

We know that getting this right 100 per cent of the time for everyone is difficult – but to help we provide key information translated into Polish, Spanish and Romanian (the three most popular languages among our membership), and other languages on request.

Additionally, members can use BT's Relay UK service to talk to us if they have trouble hearing or speaking over the phone, and they can get in touch if they need their key member documents in another format such as Braille or large print. We've added the Recite Me tool to our website so users can change how they view things to suit their needs. And we've signed up to the Alzheimer's Society Dementia Friends initiative to help us become a dementia-friendly organisation. If you get it right for people with dementia, you get it right for everyone.

This is important stuff, which can sometimes get overlooked. There's plenty more to do, but each little thing adds up and makes a real difference to many.

We regularly talk to our customers through focus groups, surveys and our new Research Lab to glean what matters to them most, and we use what we learn to improve our communications so no one's left out of the loop.

All of this has helped us shape and build our communications toolkit in support of employers to help them when they're talking to employees about their pension. We've kept things simple and it's available for all to use at no extra cost – because we believe that's only fair.

We're running free online events for employers to find out more about the communications toolkit – if you're interested please get in touch by calling 0333 230 1310 or emailing RRM@bandce.co.uk. For more information about how we can support you, visit www.thepeoplespension.co.uk/comms-PA

Written by B&CE group director of marketing, Stella Beale

the people's pension

[1] The People's Pension and the Police Foundation (September 2020), **Protecting people's pensions: understanding and preventing pension scams**
[2] ONS figures show over 940,000 people in the UK will turn 55 this year **https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland** (tab MYE2, BG6)
[3] Over a third (37%) of over 50s are leaving their retirement financial plans until their final two years before retirement or won't prepare at all, according to research from the Money and Pensions Service (MaPS). https://www.moneyandpensionsservice.org.uk/2020/09/15/3-million-over-50s-will-leave-planning-retirement-finances-to-final-two-years-before-stopping-work/

VIEW FROM THE PPI

As of 6 October 2020, the state pension age (SPA) reached age 66. This will continue to rise to age 67 by 2028. Current SPA rises are designed so that individuals, on average, spend up to a third of their adult life in receipt of the state pension.

And indeed, at the moment, an individual retiring at age 66 in 2020 can expect to spend around 31 per cent of their adult life receiving a state pension. By 2028, life expectancies will have increased, and the timetabled SPA increase will once again reduce the proportion of adult life in retirement back to 31 per cent.

One might expect that healthy life expectancy would increase in a similar manner to life expectancy and, by extension, SPA. However, in recent years healthy life expectancy has been increasing more slowly.

This could result in future generations finding it increasingly difficult to work until SPA. This presents a financial challenge to those people who need to support themselves between leaving work and being able to access a state pension, potentially needing support from the benefits system or by accessing their private pension savings. This could lead to pension savings being stretched and ultimately failing to provide for a financially secure retirement.

Where health inequalities exist, this will exacerbate financial inequality in retirement. Tackling these inequalities in working life could reduce the uneven impact of a single SPA for future generations.

PPI policy modeller, Chetan Jethwa

PENSIONS POLICY INSTITUTE
PPI

Market commentary: A second wave

October has been an action-packed month. Coronavirus cases have climbed to levels not seen since the spring and it seemed inevitable that the UK would once again be saddled with some sort of lockdown arrangement. Northern Ireland, Scotland and Wales took matters into their own hands before news leaked out of Westminster that England would be heading in the same direction.

However, news of England's impending return to lockdown failed to have an instant impact on the FTSE, with the index bouncing at the start of the week following the announcement.

However, this might be a muddier picture than it first seems, as AJ Bell analyst, Russ Mould, comments that it was clear that investors were "looking for lockdown winners and dumping lockdown losers".

To that end, brick and mortar retailers and airlines were clobbered, while supermarkets and online-focused businesses such as Just Eat look set to rack up gains as the population prepares to shelter indoors and order countless takeaway pizzas, curries and burgers for the foreseeable future.

Looking at the economy at large, Mercer chief actuary, Chris Cowling, says: "In the UK, the latest data from the Office for National Statistics reveals that the economy is growing slower than forecast, remaining at 9.2 per cent below its pre-pandemic peak.

"With the outlook for the economy weakening, there are mixed messages from the Bank of England on interest rates. Following initial anticipation that negative interest rates would be introduced, this month the bank suggested that "time is not right now", whilst also hinting another round of quantitative easing may be imminent."

Beyond the UK it also appears that Western Europe has slipped into a second wave, leading Pictet Asset Management chief strategist, Luca Paolini, to suggest that investors could look east.

He comments: "With the eurozone's ground-breaking €750 billion pandemic relief programme not expected to kick in until mid-next year, the region's near-term prospects have become more uncertain. Hence, we have downgraded European stocks to neutral from overweight. In contrast, the Asian equity outlook is brightening, thanks to China."

"China's economic activity has almost fully recovered to pre-pandemic levels, with strong export demand. While retail sales have lagged the strong recovery seen in other sectors, we believe there's more room for private consumption levels to rise as the economy heads into 2021."

There are further problems for Western Europe too, as the timeline for a vaccine remains unclear, the potential for turmoil after the US election and more rounds of Brexit negotiations.

BlackRock head of UK fiduciary business, Sion Cole, offers some advice for pension schemes, stating: "In the face of such uncertainty, and the potential for binary outcomes to significantly impact markets, trustees should be thinking about what they can be doing to best protect themselves from tail risks in the fourth quarter.

"This uncertainty has undoubtedly contributed to the increased interest in fiduciary management across UK pension schemes.

"Trustees are seeing the benefit of moving swiftly to take advantage of these abnormal market conditions, preserving and even improving funding levels for schemes. The new September data shows PPF funding levels down 6.6 per cent over the year – many schemes with fiduciary arrangements in place will be back to where they started the year, or even ahead."

Written by Duncan Ferris

Appointments, moves and mandates

The Pensions Management Institute (PMI) has appointed Aviva as its Diversity & Inclusion partner to raise awareness around these issues in workplaces across the industry.
The PMI will work alongside Aviva to deliver webinars, interviews, and case studies designed to drive change in the sector and encourage better practice within pension firms. The partnership is also expected to support the PMI's ambition to encourage greater diversity on trustee boards.
PMI CEO, Gareth Tancred, stated: "It is now more important than ever that the pensions sector steps up to the plate to improve its diversity and Aviva is an example of a firm that is doing exactly that. At the PMI, we know that greater diversity within trustee boards or workforces will inevitably lead to better decisions and our vision to create a more inclusive organisation aligns closely with Aviva's own goals. We look forward to working together to improve our own diversity and inclusion measures, which is fundamental to the PMI's core values, and driving change across the sector."


Becky O'Connor

Interactive Investor (II) has appointed Becky O'Connor to the newly-created head of pensions and savings role.
O'Connor joins the team from Royal London and will lead II's educational programme about pensions and savings and its campaign on pensions and savings policy issues. She was made a fellow of the Royal Society of Arts in 2018 in recognition of her contribution to ethical finance.


Cheryl Black

Scottish Widows' master trust board has completed its line-up with the appointment of Cheryl Black.
Black has more than 25 years' experience in customer-focused roles at Scottish Water, Orange and O2, and is currently a non-executive director at UNUM Limited. Black's addition completes the board's new line-up, following the recent appointments of industry experts David Butcher and Gerald Wellesley.


Maggie Kearney

Redington has announced the appointment of Maggie Kearney as director in its DC and financial wellbeing team.
Joining from Accenture, where she headed up its pension and benefits team in the UK, Kearney brings almost 30 years of experience in the industry to the role. She has held various DC focused roles at organisations such as Aon Hewitt and Hazell Carr, now First Actuarial, and is also a fellow of the Institute of Actuaries.


Paul Francis

Quantum Advisory has appointed Paul Francis as principal investment consultant within its investment advisory practice.
Based in the London office, Francis brings over 20 years of experience in the investment industry to the role, having previously advised a range of pension schemes. He has also held senior positions at Broadstone, Kempen, JLT, and Willis Towers Watson, and is a chartered member of the CISI.


Keith Hinds

Dalriada Trustees has appointed Keith Hinds as a professional trustee.
Joining from Grant Thornton, Hinds brings over 35 years' experience within restructuring and pensions to his new role. He spent the past 16 years at Grant Thornton and has extensive experience across a range of substantial corporate transaction and pension scheme restructurings, working with trustee boards to assess covenant and affordability.

The Brunel Pension Partnership has appointed three managers to its newly-launched Sustainable Equities Fund with a mandate of £1.2bn. Ownership Capital CEO and co-founder, Omar Cordes, RBC Global Asset Management head of global equity, Habib Subjally, and Nordea Asset Management CEO, Nils Bolmstrand, were chosen from a selection of 70 managers who had expressed interest. They will be charged with integrating ESG metrics throughout the whole investment process, including decision making, stewardship, policies and strategies.
Brunel Sustainable Equities Fund portfolio manager, David Jenkins, commented: "We were delighted to find managers who share our understanding of sustainability, embedding it deep into their culture and investment processes. This portfolio therefore meets our aspiration to go beyond traditional responsible investing and ensure that the managers are engaged with the companies and are investing in them for positive reasons, not simply focusing on negative exclusions."

VIEW FROM THE SPP

When it comes to setting investment strategy for a DB scheme, investment risk and covenant strength are perpetual bedfellows. This is neither a bold statement nor one that will shock anyone familiar with the topic; capacity for risk is as important as appetite.

For schemes in the midst of their latest valuation, this reality is particularly pertinent. The pandemic has had a tragic human impact. It has also weakened many balance sheets and by implication, both covenant strength and the affordability of future contributions. Schemes that have not been in a position to effectively hedge against their interest rate risks may also find their funding position deteriorated.

The new funding code consultation highlights the importance of additional support or a contingent asset to justify a longer recovery period or greater investment risk. The PPF's own data suggests, however, that the number of contingent assets has been in steady decline since 2012 and confirms that corporate guarantees and security over corporate assets, such as property, remain the most popular forms.

With new entrants coming to market, trustees can now consider a broader range of alternative contingent assets and support.

As the American educator, Dr Randy Pausch, succinctly put it: "One thing that makes it possible to be an optimist is if you have a contingency plan for when all hell breaks loose."

SPP Investment Committee member, Robin Hames

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On government plans to introduce a 'stronger nudge' to encourage Pension Wise guidance take-up

"This is a fudge not a nudge. It is exasperating because this lack of ambition condemns pension savers to years of more of the same – where they're ushered into pension saving through automatic enrolment but left to grope for the exit on their way out. It's not good enough and will result in a significant minority of people receiving impartial guidance."

Just Group communications director, Stephen Lowe

On The Pensions Regulator's (TPR's) DB superfund guidance

"The gateway principles provide useful guidance, but there is still scope for further discussion about the role of consolidation in DB de-risking. It is now clear that TPR sees DB consolidation as an option for schemes with no imminent prospect of achieving the funding level necessary to achieve buyout. What is interesting here is that one DB consolidator sees itself as a bridge to buyout, and so there is an apparent anomaly over how a scheme might ultimately achieve buyout via a consolidator but not via the traditional route."

PMI head of technical, Tim Middleton

On the Pension Schemes Bill and increasing TPR powers

"There are number of areas in the current wording of the legislation that we have identified for improvement and others that are missing. We welcome measures to prevent scheme sponsors from deliberately evading their responsibilities but the current drafting of Section 107 casts the net far too wide and well beyond the intended targets. This is a significant issue which many of our members have raised concerns about."

Pensions and Lifetime Savings Association (PLSA) director of policy and research, Nigel Peaple

On the Pensions Dashboards Programme's prediction that dashboards will launch in 2023

"After already progressing at a snail's pace for some time it is hugely disappointing to see this project further delayed. Of course such projects are complex but the potential that dashboards have to help people take control of their retirement planning is huge and must be grasped. Every delay risks letting down a generation of savers."

Royal London pensions specialist, Helen Morrissey

On the government's call for input on pensions tax relief administration

"This is an important issue that needs resolving. It is manifestly unfair that around 1.7 million lower paid individuals are not getting pensions tax relief because of a technical anomaly in the tax system. Many of these 1.7 million lower paid workers will be working part time and so the current system disproportionately discriminates against women. Smart fully endorses the P800 solution that has been developed and is being advocated by the net-pay action group. It is the simplest, quickest and fairest fix to what is an increasing pressing issue."

Smart Pension director of policy, Darren Philp

Soapbox: Talk money, not just pensions

As the UK enters a second lockdown, more and more people are facing hardships, whether this be the strains on their mental wellbeing, or concerns over their financial standing. Indeed, research from The People's Pension found that 45 per cent of workers have been impacted by the pandemic in some way. Meanwhile, recent data from the Office for National Statistics has also suggested that younger workers have been particularly hard hit, whilst others have warned that the pandemic could further reinforce the pay gap, with furloughed women less likely to have returned to work by September. These two groups are, unsurprisingly, oft-highlighted as struggling in relation to pension savings too, and recent struggles will likely compound these issues.

But as financial concerns impact more people across the country, it seems likely that there could be an increasing number of savers cutting or pausing their pension contributions, and not only amongst traditionally vulnerable groups of people. Research from BlackRock for instance recently showed that over half (51 per cent) of savers are likely to review or cut their pension contributions in favour of building up a 'rainy-day' fund.

Furthermore, warnings from the Financial Conduct Authority (FCA), The Pensions Regulator (TPR), and Money and Pensions Service (Maps) about the Rolls-Royce pension scheme have led to speculation that the DB transfer 'floodgates' are about to open, after trustees were urged to remain vigilant against the risks associated with increased transfer risks amid redundancies.

Against this backdrop, it seems that perhaps the best thing for pension saving would be a continued apathy amongst members, if only to avoid any inadvertently negative impacts on members' savings.

However, in an industry that is typically very protective and supportive of its members, concerns and calls for greater contributions are unsuprisingly already emerging.

Whilst it may be tempting to want to leap into action to prevent savers from withdrawing from their pensions early or cutting contributions, we are in a position where many will desperately need this money now; or the risk of poverty won't be isolated only to their life in retirement.

Pensions has never needed to fit into the broader financial picture more, and the pensions industry has an opportunity to work with broader financial services to encourage this big picture approach. After all, with everyone in the same boat, one benefit emerging from the pandemic is that many savers are finally able to actually talk about money. Whilst many have typically been reluctant to discuss finances, the upheaval caused by the pandemic has left few with an alternative but to face up to tough conversations.

This gives initiatives like the upcoming Talk Money week, an annual campaign led by Maps in November, a foothold to create a dialogue. After all, initiatives like this have never been needed more, as although people may finally be talking about money, it is only because they are already struggling. The topic of pensions does not need to disappear from the conversation by any means, but it needs to make room for other priorities and find its place in the bigger picture.

Everyone is facing hard times, and it may bode well to remember that supporting and talking to members when they can't save could allow for a stronger dialogue and trust to build, ready for when they can.

Written by Sophie Smith

VIEW FROM THE ABI

There needs to be consolidation in the DC market. Driving up scale will benefit customers and increase efficiency, so the recent draft regulation on DC consolidation by the DWP is welcome.

Smaller schemes are often less able to comply with regulation, and with new rules coming in on pension scams, dashboards and climate risk, it's important that small schemes can show they provide value for money – as some surely will – or otherwise merge. We want to ensure DWP is aligned with the FCA on value for money, and that the implementation is practical and proportionate, but the direction is right.

For insurers, guarantees are an important aspect of demonstrating value. So the clarification that guarantees should play a part in the value assessment is welcomed by our industry, although the process of calculating the benefits and value received is complicated. An actuary may not sign off on a scheme consolidating if they include certain guarantees as the members would be worse off if they consolidated and the guarantees are lost. In these cases, it may be better if a scheme is allowed to wind up naturally.

It is imperative that pension schemes provide good outcomes for members. The government should also look at other measures for scheme consolidation, including making bulk transfers without consent between occupational and contract schemes easier.

ABI policy adviser, long-term savings policy, Reuben Overmark

ABI

Harnessing ESG to drive performance

Pierre Lenders, head of ESG at Capital Fund Management (CFM) looks at whether ESG can contribute to performance for investors, both discretionary and those, like CFM, which take a quantitative approach to investing in financial markets

There's a lot of talk about the importance of environmental, social and governance (ESG) issues in investment decisions, but is there sufficient action? And if there is, what does that action look like, and can it deliver on performance as well as moral objectives?

When the CEO of the world's largest asset manager, BlackRock, says that "a company's ability to manage environmental, social and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth", and that "ESG will be increasingly material to corporate valuations", it's clear that ESG has finally moved into mainstream investment management. Add to that the fact that private equity and hedge fund managers are present and vocal at ESG conferences, when 10 years ago they would have considered these events peripheral, and it's clear the relationship between ESG and investors has changed.

It is no longer possible to ignore the science of climate change, nor deny the conclusion that we are at a tipping point in terms of the global environment. Action needs to be taken, now. The fact that this is acknowledged at the highest levels of the investment world is an encouraging signal that climate (and other ESG risks) are increasingly seen as investment as well as moral risks. Mid last year, BlackRock put its money where its mouth is and took voting action against 53 companies, including ExxonMobil and Volvo, over their lack of progress on tackling global warming. Another positive sign that talk from investors is translating into action.

Can ESG really be a performance driver?

Ever since the investment world started to take ESG seriously, the conundrum has always been the strong disconnect between ESG, or any ethically-driven restrictions, and financial value. In other words, doing good didn't necessarily translate into doing well – and doing well (or more specifically the fear of doing badly) frequently trumped doing good.

One reason was the way in which corporations made money and were valued, and the historical view of a corporation's objective, which was to increase profits for itself and its shareholders. Social responsibility did not play a role. The idea that a corporation has a social obligation as well as a profit objective has become much more widely accepted over the past decade or so and at the same time, the economic landscape has changed.

As the disastrous effect of depleting natural resources and global warming has become apparent, using natural resources as if they were limitless and free is not sustainable – and this has affected the profits and sustainability of 'old-world' businesses, like oil and gas and the automotive industry.

If we add in the rise of digital technology and how it has changed the way we live, shop and do business, it's clear that there are many 'new-world' businesses with very different value drivers. These are the businesses which create and sell intangible assets, like brand value, intellectual property or even active users of new technologies. Intangibles are outpacing tangible assets, and the kinds of businesses which are most profitable are changing.

ESG considerations are increasingly seen important, not only because of the dire state of our planet, but also as performance drivers because they capture some of the risk and return drivers which are not captured in traditional financial metrics, but are relevant to valuation in a way they weren't in the past.

ESG and quant investing

For quant investors, there have been challenges in addition to those which discretionary mangers face, when looking at incorporating ESG factors. For us, to be successful, strategies must pass a minimum statistical threshold, and be underpinned by economic rationale. ESG has always passed the second hurdle, but we've struggled with the first.

One of the problems is the lack of data (we don't have a long timeframe over which data has been collected), and the other is the lack of a consistent framework. Responsible investors are already reporting on ESG factors, and reporting diligently, but without consistency between frameworks, it is difficult to compare apples with apples.

Another problem is that incorporating ESG factors into systematic quantitative-based investment strategies can be a double-edged sword. On the plus side, a quantitative investment approach is well-suited to take advantage of large and growing collections of data sets and our experience and expertise in 'scrubbing' dirty data so that we can interpret and read it, is our bread and butter. Inconsistent data is good news for us: we have the means to clean it up and use it. It's less good news for discretionary investors, who typically face a much harder task with the speed and quantity of data to interpret. On the other hand, the fact that a lot of ESG data is reported differently, judged differently and interpreted through different databases with diverging methodologies means it might be better suited to the more qualitative analysis of discretionary managers.

For both discretionary and quant asset managers, the main focus is on the growing materiality of ESG factors to the price mechanism. Historically the best discretionary investment managers were better able to look long term and identify the ESG themes that were driving change in the future. Quant investing, on the other hand, which typically looks to the past to learn lessons about the future, struggled with the scarcity and inconsistency of historic ESG data.

The good news is that our ability to incorporate ESG into our quant-based strategies has improved rapidly in recent years. Advances in technology, machine learning and artificial intelligence (AI) are increasingly allowing us to monitor, analyse and identify trends and signals not only in the financial ecosystem, but outside it as well – and to make use of this data in our investment strategies.

Alternative data sources, which are increasingly being explored for investment insights, are growing exponentially in size and importance. Social media trends, imagery from satellites, even the kind of language CEOs use when issuing an earnings update is all data which has existed for a long time. What hasn't been possible has been the industry's ability to store and interpret this data, particularly given how much of this data is unstructured and dirty.

Making sense of this type of data and using it to inform investment strategies requires advanced statistical techniques such as neural networks – areas where quant investors have a serious advantage over discretionary managers. An added advantage is that AI allows us to mine information from not only in the financial ecosystem, but outside as well. This is important because some of the themes which fundamentally shape our future do not necessarily happen in financial circles. The first conversations about hydrogen powered cars, for example, weren't had by investment managers, they were had by academics and NGOs – but tracking these type of discussions and innovations through the plethora of media gives real insight into the ESG themes likely to shape the future.

Conclusion

More and more investment managers are starting to look at ESG as part of their performance toolkit, and as an active contributor to performance, rather than a necessary compliance process, entirely divorced from performance. Armed with new ways to systematically extract topical information from multiple sources, including text only datasets, quant funds can now compete with discretionary managers on selecting assets and build portfolios with sustainability tilts. Although ESG factors mostly emerged from ethical, non-financial intentions, some of them are gaining mainstream acceptance so forcefully that the much referred to 'trade-off' between the moral and the financial imperative fades away. It's quite on the contrary – a story of gradual re-alignment between value and values, which asset managers on the quant side are now equipped to participate in and contribute to as well.

As our clients, governments and society become ever-more engaged in and take action on ESG issues, so too will this increasingly impact financial markets. And whilst there are challenges, we believe there is also great opportunity to apply our quantitative and systematic techniques to meet our clients' requirements and for the quant industry to play its role in environmentally-conscious investing.

Written by Capital Fund Management (CFM) head of ESG, Pierre Lenders

Disclaimer:
Any description or information involving investment process or allocations is provided for illustration purposes only. There can be no assurance that these statements are or will prove to be accurate or complete in any way. All figures are unaudited.

A pensions revolutionary

Pensions Policy Institute head of policy research, Daniela Silcock, chats to Duncan Ferris about *RuPaul's Drag Race,* literary heroes and revolution

What's your employment history (including jobs outside of pensions)?
I was actually a social worker for a long time until I was in my early 30s and then I got my Master's degree in Social Policy and Planning and started doing research. I've done research at a couple of places, but I've been in pensions for a very long time now.

What's your favourite memory of working in the pensions sector?
This is kind of a pretentious answer but it's genuinely my very favourite memory. I was asked to appear on the *Today* programme and talk about pensions and that was definitely a high point for me.

If you did not work in pensions, what sector do you think you would be in instead?
My interests before I ended up in pensions were civil rights, so I am assuming I would be doing something in that field if I wasn't where I am now.

What was your dream job as a child?
My dad was a Marxist and he filled my head as a child so I think I expected to become a revolutionary. I was going to bring down capitalism, but I got a lot lazier as I got a bit older so now I'm just trying to do what I can from the inside!

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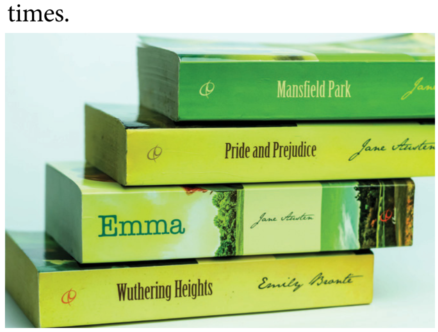
What do you like to do in your spare time?
I knit, I read, I ride my bicycle, spend time with my three cats and spend time with my family – especially now as we're not allowed to go anywhere.

Do you have any hidden skills or talents?
I can sew my own clothes. I haven't done it for a little while, but I used to be quite prolific with that.

Is there a particular sport/team that you follow?
No – no sports for me.

If you had to choose one favourite book, which would you recommend people read?
My favourite book is *Mansfield Park* by Jane Austen but I'm not sure I would recommend it to people because I know a lot of people can't really get on with her writing and some people find the main character dreadful. But it's definitely my favourite book, I've read it many, many times.



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And what film/boxset should people see?
I would recommend a vegan documentary called *Live and Let Live*, but if you're just looking for fun stuff, I quite like *RuPaul's Drag Race*. I think it's always a good distraction when life is a bit too stressful. They're amazing artists – the stuff they come up with is really breath-taking.

Is there any particular music/band that you enjoy?
I quite like goth music and 80s pop.

Who would be your dream dinner party guests?
George Eliot, Emily Brontë and Anthony Trollope.

Is there an inspirational quote/ saying you particularly like?
"The green reed which bends in the wind is stronger than the mighty oak which breaks in a storm" – Confucius. I find this quote really helpful when life is chaotic to picture myself just blowing about in the wind rather than fighting against things too much!

Written by Duncan Ferris

PODCAST: Climate change

FTSE Russell product manager, sustainable investment, EMEA, Hilary Norris

Sovereign bonds and climate change considerations

In *Pensions Age's* latest podcast, Laura Blows is joined by FTSE Russell product manager, sustainable investment, EMEA, Hilary Norris, to discuss sovereign bonds and climate change considerations

"Traditionally, sustainable investment has focused on equity but this is changing quite quickly and work on other asset classes is growing, particularly in fixed income," FTSE Russell product manager, sustainable investment, EMEA, Hilary Norris, says in the *Pensions Age* podcast, *Sovereign bonds and climate change considerations.*

However, incorporating climate change considerations into a fixed-income portfolio does have many similarities to incorporating it within equities, she explains, such as initially conducting a carbon footprint of the portfolio to better understand its exposure to climate change.

While having their "limitations", Norris adds, "carbon footprints are a useful first step and they can also be used to track high-level commitment such as portfolio decarbonisation, engagement with investment managers, and for responding to the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations".

A fixed-income portfolio should focus on exposures to high-carbon sectors, stranded assets and relative over- and under-performance. Where this can get complicated, Norris says, is that fixed income portfolios can have different entities within them, such as corporate bonds and sovereign bonds.

"The data may not be as readily available or easy to access as on the equities side and perhaps not as clear as to how to compare against these different entities," she explains. "With our work with pension funds we will measure their carbon footprint using multiple metrics and we will try to compare like for like. For example, using GDP as the denominator for countries, and then enterprise values, or sales, for companies. We also recommend developing a framework to understand portfolio exposure to climate risk."

To help with this on the sovereign side, FTSE Russell has launched the Climate Risk-Adjusted World Government Bond Index (Climate WGBI). It adjusts the weights of the countries within the index by their exposure to climate risk, judged within three pillars. These are physical risk, transition risk and resilience.

Investors increasingly need to consider climate change risks within their sovereign bond investments, Norris points out, due to its impact on government spending as increased weather events and natural disasters become more common. It can also affect government income, for example with reduced agricultural output.

This focus is evidenced by the increasing number of UN PRI signatories and the growing acceptance that climate considerations should be accounted for in financial decision making. She gives the examples of France, which require investors to disclose how their investments are contributing to a low carbon transition, and across Europe, where in the coming months and years investors and financial administrators alike will be required to report on ESG and climate-related metrics.

While there is a perception that developed markets or European sovereign bonds are 'safer' from an ESG or climate change perspective, Norris "would argue that this is not really the case".

She highlights Australian forest fires and research suggesting that climate change could reduce Australia's GDP per capita by 53 per cent by 2100. "So, this is a developed market country that is quite exposed to climate risks."

To help investors understand these challenges, FTSE Russell uses 15 variables, including GDP per capita, energy intensity of GDP, historical emissions and carbon intensity of energy production to calculate country emission reductions in line with the Paris Agreement goal to limit global warming to 2° or below.

This information is used in the Climate WGBI, within its transition risks pillar, to better understand where countries are and where they need to be with respect to decarbonisation of their economies and the extent and ambition of their commitments.

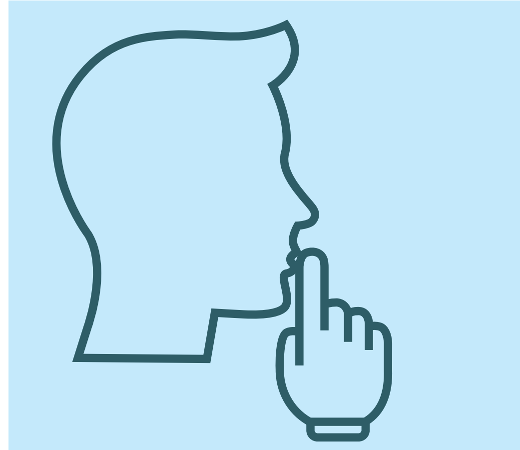
"We have also partnered with the research thinktank, 2° Investing Initiative, in extending this methodology to the sector level," Norris says. "By combining our top-down methodology with its bottom-up asset level data we are able to calculate sector trajectories that are both in line with countries' nationally determined contributions and 2° aligned trajectories. This then provides insights into the types of technology investments that are necessary to reach these goals."

"This data is used by a number of pension fund clients," Norris adds, "to calculate the implicit temperature of their portfolios and may use this to feed into their overall climate change strategy."

To find out more about this subject, and to listen to the podcast, please visit www.pensionsage.com

Silent partner

Laura Blows explores why pension payroll integration with administration needs to be a more regular topic of conversation



"It is a big part *[of administration]* but it is not often talked about; it really should be talked about more."

Can you guess which mysterious, unassuming part of administration Pensions Administration Standards Association (Pasa) chair, Kim Gubler, is talking about in the quote above?

The answer is… payroll integration. Of course. Were you one of the ones to answer correctly, or are you one of the many for whom it fails to make a big impression in their mind?

It is not unusual if that's the case, but it is somewhat surprising. According to Gubler, payroll integration is always a key part of the project plan when moving administrators, for instance when moving from in-house admin to a third-party administrator. "It is a big part of it but it is not often talked about; it really should be talked about more."

This lack of conversation may be the reason admin and payroll are sometimes more of a disjointed process than it needs to be.

"Admin/payroll should so obviously in my view, (and certainly in database terms) be two sides of the same coin but I'm constantly disappointed and amazed to find out how disjointed they sometimes are," Quantum Advisory pensions administration project manager, Matthew Elguezabal, says.

"We (quite rightly) have both on the same database, with a live line of communication between the two. But I've lost count of the take-ons where they are two separate data sources (often in different formats) where even the member reconciliation doesn't add up, so not only do you have disparate address info etc but you also have admin pensioners not on payroll cut (perhaps dead and long since removed from payroll but still 'alive' on admin and never closed off) and/or pensioners not on admin cut (so no background or set up figures to validate pension in payment).

"These are issues you shouldn't really have to deal with or question but you'd be amazed at the time and money spent sorting this out on transition just to get to your correct starting point. Communication and teamwork is key."

Muse Advisory consultant, Damon Lacey, also notes that some organisations run pension payroll on their staff payroll system, so it is completely separate from the pension administration, meaning that there is a significant requirement to reconcile these systems from month to month. "Effective integration is really important, but sadly that doesn't always work as well as you might hope or expect," he says.

If you were starting from scratch, it would be very unusual for an organisation to maintain a separate payroll package, Lacey adds.

Thankfully, payroll and pensions admin systems are increasingly integrated, providing many benefits, such as not needing to spend time, and introduce risk, in maintaining and reconciling two different databases, as well as ensuring that members retiring are automatically pushed through to the payroll system without any intervention or button-pushing needed, therefore avoiding people slipping through any manual processing net, Lacey explains.

"Where you have a single packaged system that includes both the core admin database and the payroll, the integration is ready-made and the systems will speak to each other seamlessly," he says. "Where integration is being built between different systems, it can achieve similar degrees of interaction but may require more work to test and maintain as systems develop over time."

How much attention and focus that gets put on to systems in a selection process is down to the individual trustee board. Some will want to get under the skin of the systems and understand more about the architecture, the integration and the security, while others want a high-level of comfort that systems enable efficient and accurate administration, have clear controls around processes and don't have obvious gaps between systems where data is potentially at risk of being lost or forgotten, but leave the detail of how that works to the provider, Lacey notes.

Whichever approach a trustee board takes, the key thing is to remember that how the systems interact is fundamental to a good systems set-up. As Lacey says: "Payroll is clearly a critical piece of that puzzle and having good integration with the core administration database is a minimum requirement."

So something this 'critical' could always benefit from more conversations.

Written by Laura Blows

Matching member data for dashboards

Is 'Beyoncé Giselle Knowles-Carter' the same person as deferred member 'Beyoncé Knowles'?

Editorial credit: s_bukley / Shutterstock.com

The Pensions Dashboards Programme promises a new era of understanding for members about their overall pension benefits, and of engagement with schemes as members look to turn information into action. But it also introduces a data dilemma for trustees and the administrators they instruct. They will need to reconcile the contrasting demands of two different pieces of legislation: the Pension Schemes Bill currently going through parliament, and the General Data Protection Regulation (GDPR).

The first of these will create an obligation on schemes to share member data with third-party dashboards being used by their members. The scope of the data is still being tested by the Pensions Dashboards Programme; but it is clear any data shared with the dashboard – even if it is just an indication the member has benefits with the scheme – will count as personal data.

But… the second of these laws – the GDPR – creates an obligation to safeguard personal data, and not to reveal it to third parties that have no right to it. The obligation won't go away at the end of 2020 when the Brexit transition period expires, because the GDPR will be transposed into UK law at that time. So, administrators and trustees will have to walk a very fine line to ensure they meet their new legal obligations to disclose, whilst also meeting their existing obligations not to.

Editorial credit: Robert Hoetink / Shutterstock.com

At the heart of this tension will be the algorithms that match data about the dashboard user against member data held by schemes. If a match is found, the scheme will return a link to where the dashboard can retrieve information about the member's benefits. If there is no match, then a 'not found' message is returned.

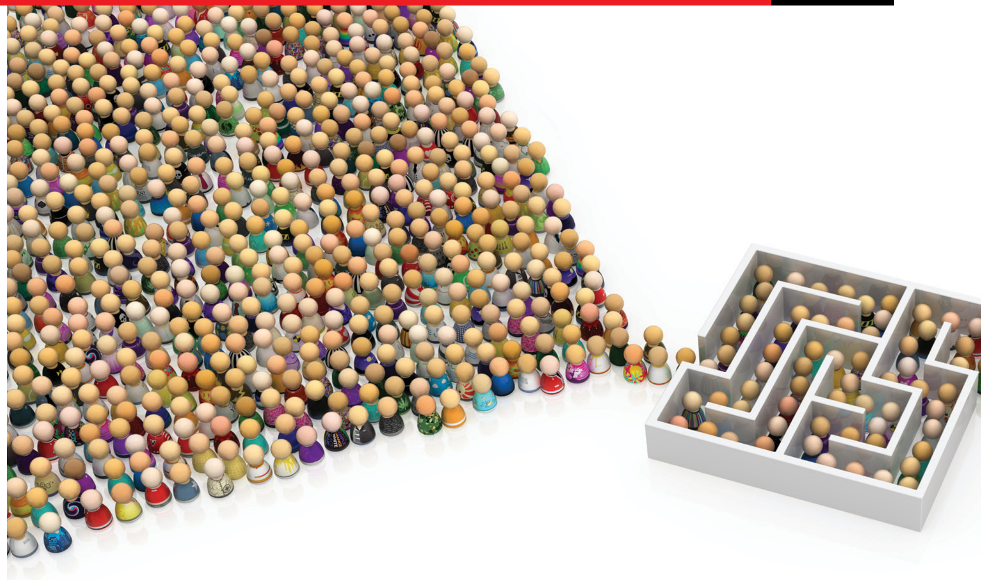
That algorithmic matching is both critical and hard to achieve. Matching rules must be defined upfront, with little scope for judgement in their application on a case-by-case basis. Can an algorithm be sure whether the dashboard user 'Beyoncé Giselle Knowles-Carter' is the same person as deferred member 'Beyoncé Knowles,' even if they share a date of birth? Err on the side of a match, and personal data is potentially disclosed to someone other than its subject. But err on the side of no match and, at best, an opportunity is lost to connect a member with accrued benefits; at worst, repeated errors may attract the interest of The Pensions Regulator (TPR).

What can be done to improve the chances of not erring on either side? As ever, good quality data will be a prime resource. Dashboard users will have to complete a robust identity verification exercise with their dashboard of choice before submitting a request to find benefits; so schemes can have confidence the matching data they receive does indeed relate to the user in question. And accurate records will give schemes the best chance of accurately matching the request against member data.

Indeed, work to improve accuracy needn't wait. Although the Pensions Dashboards Programme has yet to publish its response to industry consultation on data which might be used in matching, most of the elements under consideration – including family name, given name or initials, date of birth, National Insurance number, current address with postcode – are already on TPR's list of common data schemes should record. So, improving the coverage and accuracy of these will yield benefits beyond eventual compliance with dashboard requirements.

The Pensions Dashboards Programme and the Pensions Administration Standards Association (Pasa) are working with data experts from the industry's leading software providers to establish how request data can best be combined to find as many true matches as possible whilst minimising the risk of finding false ones. But when schemes come to implement matching processes, trustees and administrators will have to work together to find a balance that satisfies both TPR and the Information Commissioner.

Written by Pasa Dashboard Working Group member, Nick Green



Summary
• The Covid-19 pandemic saw a pause in transfers to master trusts during March and April, but the market picked up again over the summer.
• Smaller-sized DC schemes and those from Covid-affected sectors are increasingly moving into master trusts. Partial transfers into master trusts of deferred members or only of those approaching retirement is also occurring.
• The increased use in technology because of the pandemic has helped speed up the process of transferring into a master trust.
• The number of transfers into master trusts is expected to rise over the coming years for both Covid and non-Covid reasons.

Pushing past the bottleneck

Laura Blows considers the effects of the Covid-19 pandemic on master trust transfers

Following the completion of the master trust authorisation process last year, 2020 was all set to see an influx of single-employer, trust-based DC scheme moves into master trusts. But then Covid-19 hit, blocking the process. Or did it?

Pressing pause?

River and Mercantile Solutions head of DC, Niall Alexander, stresses that it's probably a little early to say whether master trust transfer activity has increased or decreased because of Covid-19 at this point.

"In our experience, companies have been busy with the non-pension implications of Covid-19 and the future of pension provision has taken a back seat," he says.

Yet The People's Pension (TPP) saw no fall in demand in the first half of the year, its head of business development, Dave Lunt, states, with the completion of a number of single employer trusts and master trust consolidations.

For Hymans Robertson head of DC provider relations, Michael Ambery, Covid-19 also did not cause as much of a lull as expected. "The market maybe was not as busy as we expected *[pre-Covid-19]* but it was still busy," he explains.

According to BlackRock head of UK institutional DC, Alex Cave, "whilst Covid-19 did create a pause in appetite to move we no longer see this as a significant barrier", with there still being appetite for transfers into master trusts.

Whether Covid-19 is helping drive this appetite, Sackers partner, Georgina Jones, is not sure, as opposed to this drive being due to the pre-existing trends of employers looking for an appropriate DC vehicle for their employees, while reducing their pensions-related costs and management time.

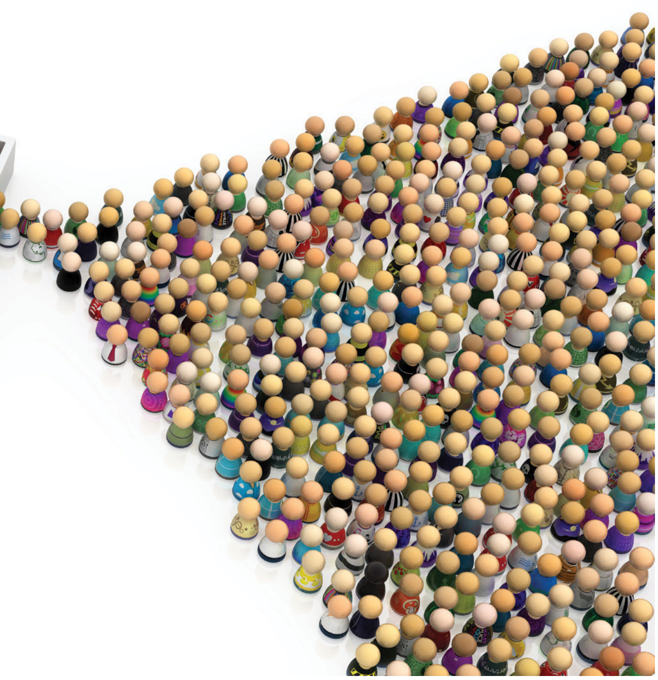
Premier Pensions head of employer services, Sue Pemberton, agrees that reducing costs is a factor for the move to master trusts, particularly with the increased regulatory focus on 'value for money' for small-sized DC schemes, but that this time of Covid-19 may have put even more focus on costs.

Lockdown volatility

Once the first lockdown occurred from March, "unless the transfer process was already in train", apart from maybe the large employers, many decided against implementing a move to a master trust until things were more "back to normal", Pensions Administration Standards Association (Pasa) chair, Kim Gubler, says, as people did not want to crystallise their losses during the subsequent investment market downfall.

This created a bottleneck, as several deals in the pipeline for March or April with prefunding agreements were delayed, reduced or stopped entirely, Pemberton says. And with the increasing number of master trust deals that had been occurring pre-Covid, the capacity to slot these deals in later in the year was limited, she adds.

As the master trust takes on the risk of a prefunding deal by buying 90-100 per cent of the ceding scheme's assets around the same time that the scheme sells them, they were concerned about the market volatility and their afford-



ability to do so – especially as they do not tend to charge for this service, Pemberton explains.

However, while market volatility from Covid-19 initially meant that transfers to master trusts were delayed, now *[the fallout from Covid-19]* has been going on for more time we are starting to see employers reverting to their original plans, Jones states.

"After a busy start to the year, we initially saw sponsors hit pause in March whilst they waited for things to return to normal. When things most certainly didn't, sponsors hit fast forward instead and over the summer we had a significant increase in requests for indicative pricing, requests for proposals and transfers," SEI Institutional Group director of DC solutions, David Snowdon, adds.

"We were expecting a surge after master trust authorisation for a variety of good reasons totally unrelated to the pandemic. However, the sheer volume of enquiries in recent months – and the speed with which many of these sponsors want to implement – has almost certainly been driven by increased, Covid-19-related financial pressures."

Marching forward

Gubler has noticed smaller-sized schemes moving into master trusts since April, as has Jones, along with DC sections of hybrid schemes being moved.

"The type of schemes moving to master trusts is highly varied," Snowdon says. "There has been some variation by industry sector, although those sectors currently under the most pressure tend to stand out more. We've seen a good mix of manufacturing, retail and financial services sponsors *[moving their schemes to master trusts]* in recent months.

"We have also seen technology firms who have expanded – partly due to the demands created by Covid-19 – make the move into a master trust."

An increasing number of single trust schemes are retaining their own DC schemes for employees only and using the master trust for their deferreds and/or retiring members needing flexible retirement options, Snowdon adds. "This may also be in part driven by an increase in early retirements and redundancies impacting members over the age of 55."

Even with this increase in volume, the pressure to find new transaction slots for those schemes put on pause at the beginning of the year has pretty much washed through, Pemberton says. However, nervousness around the second lockdown and market volatility may make some processes take longer, she warns, "especially as the master trust market itself will do nothing but increase in demand".

Help or hinder

But for those that did manage to implement a transfer to a master trust this year, after the initial scramble of switching to a 'work from home' environment, providers, administration and investment teams "did a phenomenal job of moving transitions through very quickly and efficiently", Ambery says.

This move to home working also accelerated the use of technology to facilitate transfers to master trusts.

"Practically, the reorganisation of companies to cope with Covid-19 has made this complex process easier to manage, as the shift to video conferencing means it's now more straightforward to bring people together from different organisations," Lunt explains.

Lessons can be taken from the pandemic for those that are wanting, but have yet, to transfer to a master trust. "The pandemic has led to operational procedures being tested, given the change in how we all worked, and this is an area worth testing with any potential master trust transfer," Cave advises.

Looking ahead

Some employers are waiting until after Covid-related staff redundancies have completed before then considering moving into a master trust, Ambery says.

According to Lunt, although some advisory firms are reporting delays to scheme review projects from their employer clients, he fully expects that "the financial fallout from the pandemic will lead to more companies having to make decisions about their pension schemes".

Particularly, many more schemes are expected to move across into a master trust in the first half of 2021 as a result of both the consolidation of small pots *[see page 36]* and Covid-19 creating cost and employee restructure pressures, Ambery says. "The question will be whether master trusts will be able to onboard schemes quickly enough."

While a lot of DC consolidation has already happened, Alexander adds, "with growing pressure from the regulator, and Covid-19 related market falls resulting in many companies evaluating their DC vehicle of choice, it may be possible we see an accelerated march to master trusts".

Written by Laura Blows

Small pots, big problems

Summary
• Small pots are inconvenient for savers, because they can be rapidly eroded by charges, and for providers, as the costs of administration outweigh the size of the investment.
• Auto-enrolment has caused an acceleration in the number of small pots, while the Covid-19 pandemic could exacerbate the problem.
• There are a number of proposed solutions, most of which involve either forcible consolidation or increasing savers' control and awareness of their pensions.

Small pots are a hot issue in the ever-evolving pensions universe. Duncan Ferris delves into the world of small pots to find out why they are such a problem, what caused them and what can be done to resolve their issues

The fact that something is small does not mean it cannot cause trouble. A cut in the roof of your mouth. A crack in a Boeing 747's windshield. A toddler throwing a wobbly in the supermarket. All of these examples can of course lead to unimaginable levels of chaos and the issue of small pension pots might have that same potential.

The Pensions Policy Institute (PPI) warned in July that there could be as many as 27 million small deferred pots in the UK by 2035, up from eight million in 2020, adding that this would dwarf the nine million active pots in 15 years' time. This has thrust the issue into the limelight as it demonstrated that, although they may be little on their own, small pots could soon cast a large shadow in the pensions landscape.

Why the fuss?

The first port of call is to establish why it would even be a problem for both savers and providers that there are a great deal of small pots floating around.

Starting with savers, Aegon head of pensions, Kate Smith, says: "Small pension pots can be difficult for people to keep track of, especially at the start of someone's career. If people have had numerous jobs, they might have numerous small pots scattered with different pension providers and different pension schemes."

Aon partner and head of UK retirement policy, Matthew Arends, points out that there is also the risk that small pots can be of "eroded over time", particularly in situations where "the costs and charges levied by the provider are measured in pounds and pence (as opposed to a percentage of the pot)".

Pensions and Lifetime Savings Association head of defined contribution, master trusts and lifetime saving, Lizzy Holliday, agrees, stating: "The key risks from small pots are the erosion of a pot due to fees, that people may lose track of small pots over time and that having multiple pots at retirement may cause confusion or drive certain economically inefficient behaviours."

She adds: "Similarly, engaging with, or receiving communications from, numerous schemes potentially adds to the feeling of complexity or lack of control for the individual regarding pensions savings."

Mercer partner and director of consulting, Brian Henderson, explains that this complexity can be further exacerbated in situations where "different providers have different charging structures", noting that this would be an especially "inefficient" way of managing retirement savings.

For providers the issue creates problems as well, as Arends explains: "From a provider perspective there are financial challenges associated with administering small, deferred pots as the costs are disproportionate to the amounts of money invested."

PensionBee head of corporate development, Clare Reilly, concurs, adding: "PPI data shows the average pension pot size in master trust schemes in 2020 is £1,000. PPI modelling also shows that for a provider to break even on a pot and charge 0.5 per cent annual management charges, the pot only becomes financially sustainable at £4,000."

Cause

Once some of the problems caused by small pots have been examined, it is key to understand what factors have catalysed their proliferation. In this case, there is a clear prime suspect.

Arends explains: "Auto-enrolment has been the biggest contributor to the rate of increase in small, deferred pots. This most often arises when individuals opt out but do so shortly after the window for a refund and so end up with a small residual pot."

He adds that this is particularly problematic as it both "brings into question whether the original policy aims of auto-enrolment are being fully realised in practice" and could "lead to distrust of the pensions industry" because of savers receiving poor results from many small pots.

Reilly points out that auto-enrolment also gives workers a new pension pot each time they start a new job, meaning that "people can end up with many tiny pots that they lose track of or become an administrative burden to maintain".

She adds: "Another feature of the system is that even if an employer enrols an employee with a provider they already have a pot with, it won't necessarily be consolidated together. That means one person can have many abandoned small pots with the same provider. This occurs with some of the big auto-enrolment providers and needs to be urgently resolved as it is exacerbating the problem."

Reilly marks out job switching as a further issue, commenting that "the labour market looked very different when the auto-enrolment system was being designed".

She explains: "Millions of people are in insecure work due to temporary or casual work contracts, agency work or the gig economy. People are moving in and out of the labour market in a way that wasn't anticipated. It adds to the issue of small pots as people temporarily working for an employer for limited periods of time, even a few months, will each time be enrolled in a new pension scheme."

Unfortunately, this could become even more pronounced as Covid-19 continues to ravage the economy.

Smith explains: "The job retention scheme originally protected auto-enrolment by covering employers' auto-enrolment minimum contributions up to a capped salary. This meant furlough workers were earning less and potentially saving less in a pension.

"As the job retention schemes come to an end, it's expected there will be a rise in unemployment, which has the potential to exacerbate the small pots issue."

Action

As small pots are creating a problem, some steps are already being taken towards dealing with the problem and some others can be taken by providers and organisations at an individual level.

Smith states: "The Department for Work and Pensions has set up a working group, with expert panels, to look at possible solutions to help deal with the proliferation of small pension pots. It's likely that a range of solutions will be needed including the greater use of guidance, making transfers simpler, consolidation pension schemes and refund of micro small pots."

Henderson comments: "The anticipated arrival of pensions dashboards will help individuals see all their pensions in one place and potentially drive consolidation. The ability to consolidate and sweep up small deferred pots should be one of the by-products of the dashboard and the industry should be ready to support such activity."

Holliday acknowledges that industry members and employers can "seek to communicate with savers on the importance of considering moving their pot when they come to change jobs", but concedes that past attempts at this kind of project "have not had transformative impacts, and we think the focus for the solution needs to shift".

Smith agrees, stating that "providers need to engage with pension savers to highlight the benefits of consolidation" but says it "needs to be easier to consolidate small pension pots".

Future steps

In terms of future steps that can be taken, there is a limited amount that the industry can do in the current climate, as Arends states that it is "incumbent on the government to facilitate consolidation and identify the best way that this can be achieved from the feasible options" as "law limits refunds and requires savers consent for transfers".

He seems to consider consolidating without saver consent to be a viable option, commenting that it could be considered where "better value is delivered for the saver" and that there could be a "robust way to assess this".

Arends states: "Our view is that a non-consent individual transfer would require assessment criteria to be established to test whether consolidation would provide better value for the saver, allowing in particular for transition costs, a comparison of the suitability and quality of funds and respective member borne charges.

"Particular care needs to be given to any arrangements carrying underpins or guarantees to ensure that consolidation does not have unintended consequences. Alongside this, we would expect the government to provide any necessary protections required by providers so that transfers without saver-consent cannot lead to claims against the providers."

Smith is pragmatic in the search for an answer and also highlights the need for legislative assistance, stating: "It's likely that a range of solutions will be needed, including the greater use of guidance, making transfers simpler, consolidation of pension schemes and refunds of micro small pots.

"The pension dashboards will help people reconnect to all their pension pots, but as this will be implemented later than anticipated, in 2023, so other solutions will need to be considered. It's unlikely that one solution will be enough to address this problem, and the government may have to legislate to help address this growing issue."

Reilly also endorses developments in the way in which small pots could be consolidated, backing the creation of a "small pot switching guarantee", which would give any pot with a value of under £4,000 "free and rapid movement around the system to enable savers to consolidate all their old small pots to the provider of their choice".

She continues: "Currently, the Pensions Schemes Act 1993 gives providers six months to release funds. To simplify the process for consumers, requests for transfers under the small pot pension switch guarantee should be completed in 14 days. Modern technology enables this. Savers are still poorly served by the fact that it can take up to two months to move a small pot out of major master trusts."

In addition, Reilly stated that savers could have a single pot registered against their National Insurance number, meaning that "every employer throughout their working life should pay directly into the same pot" and it would be "easier for the saver to manage".

Reilly concludes: "An effective pension system requires the active participation of savers, which means giving them more ownership of their pensions and the ability to consolidate, where that is the sound financial option. It is possible to consolidate pensions whilst protecting consumers by carving out the £4,000 limit for transfers under the small pot pension switch guarantee."

Written by Duncan Ferris

Practice makes perfect

The Co-operative Pension Scheme, Pace, has completed four buy-ins in 2020, totalling almost £3 billion. At the PLSA's latest Annual Conference, Co-operative pension investment and risk manager, James Giles, explained the benefits of multiple transactions, and how the scheme was able to take advantage of attractive pricing

2020 has seen a number of trends emerging in the bulk annuity and consolidation markets, with more schemes than ever looking to de-risk amid the pandemic and an increasing level innovation in structures expected. One such trend that is emerging is that of multiple de-risking transactions, such as the four buy-ins completed by The Co-operative pension scheme, Pace, in 2020.

Speaking at the Pensions and Lifetime Savings Association (PLSA) Annual Conference 2020, The Co-operative (Co-op) pension investment and risk manager, James Giles, discussed the recent transactions undertaken by the scheme this year, the challenges it faced, and the benefits of an umbrella contract.

This follows the first ever buy-in for the Co-operative and its Somerfield Pension Scheme, in 2019 *[see PA October 2019 for more details],* when the sponsor insured £425 million of liabilities with the Pensions Insurance Corporation (PIC), learning lessons that would support the sponsor in de-risking its core pension scheme, Pace.

Pace, which has around £4 billion in assets, has been in existence for almost 100 years, and was the main pension provision for everyone working in Co-op stores, funeral homes, Co-op insurance and the Co-operative bank, before closing to accrual in 2018. Speaking at the PLSA conference, Giles explained that the scheme was well funded, with longevity being the main residual risk for the company to focus on, in order to reduce this over time.

Setting a goal

He added: "Once we had decided on that as a target, we looked at the options and concluded that a pensioner buy-in was the best option for meeting our objectives. Our longer-term objective is to make sure that we can continue to pay pensioner benefits as they fall due and run off the scheme in as low a risk way as possible to members, but also to the employers, but making sure we're not doing anything along that journey that would make a future full risk transfer or a full scheme buyout more challenging."

Giles also clarified that whilst the scheme has considered other options, including a full scheme buyout, they had felt more comfortable with multiple buy-ins; firstly as the buyout would have required a significant cash injection that wasn't available, but also because a pensioner buy-in was more straightforward.

"Looking at deferreds is obviously harder because the benefits haven't crystalised so the data also needs a bit more work, and a full risk transfer with residual risk cover would have required greater due diligence from our perspective," he said.

However, he added that there were areas that needed greater consideration to avoid causing potential issues securing future bulk annuities. For instance, he noted considerations in terms of what section of the scheme to include in the buy-in, adding that it can be harder to insure populations with a larger deferred component, which meant that the scheme had to ensure that it did not skew the residual population to deferred members, making future transactions harder.

Giles also highlighted considerations in terms of how the transactions were to be communicated with members, stressing that all scheme communications were clear that the deal wasn't singling out any pension scheme members, but rather improving everyone's security.

"Really, we treated it as just a regular investment decision, so we communicated it through the reporting accounts, the member updates… but we've not made a huge deal of it," he said. Giles also noted however, that where the scheme did have member engagement was amid the spousal existence exercise undertaken prior, highlighting the importance of ensuring communications are genuine and credible, particularly in the current environment.

The scheme has now completed four buy-ins in 2020, with two £1 billion buy-ins with Aviva and PIC announced in January and February. This was subsequently followed by two

Picture by: Shutterstock.com

transactions, which were completed amid market volatility stemming from the Covid-19 pandemic and saw £350 million of liabilities and £400 million of liabilities insured with Aviva and PIC, respectively.

Lessons learnt

Through these transactions, key strengths of the scheme and sponsor have begun to emerge, with ongoing flexibility aspect of this.

For instance, Giles explained that whilst the Co-op issued requests for quotes in 2019, when the market was "pretty busy from transactions", feedback from insurers was clear that the scheme would be able to secure better pricing if the actual implementation of transactions was deferred until early 2020, which the scheme agreed to. Furthermore, he added that, amid the large transactions in 2019, there was not much appetite for a £2 billion transaction, which led to two smaller £1 billion transactions with separate insurers.

"We weighed that up and were comfortable I think, given that the pricing we were offered worked in terms of our objectives, that we would rather proceed on that basis, than delay and run the risk that pricing movies away from us," he stated. Having an umbrella contract in place meant the scheme could move very quickly, he adds, noting that discussions with the insurer also allowed for bonds that were already held to be used, again speeding up the process.

It was not just the umbrella contract structure that allowed the scheme to move quickly however, with Giles also noting engagement from both the trustees and sponsors as making the scheme more credible, in turn allowing it to be particularly flexible in timings and move quickly when needed. He highlighted this governance structure as one of the key processes applied from the previous smaller scheme transaction completed in 2019.

"Putting a formal joint working group in place between the trustees and the sponsors, with delegated decision-making authority, allowed us to be confident that we knew exactly what decisions we would need to make and that we could go to market happy that we would be able to transact if we hit certain targets around price or scale," he explained.

Of course, this is not the only lesson learned from previous transactions, with Giles stating, for instance, that the scheme had not previously appreciated how much more complex using bonds and credit, as well as gilts, would be. "It worked very well and we got an attractive price from it," he clarified, "but I would definitely engage our asset managers earlier on in the process, and make sure that we have them on board, anything we can do with them to help facilitate the process would be helpful".

Furthermore, he emphasised the importance of ensuring capacity and sufficient bandwidth when approaching the market with transactions in close succession.

"In an ideal world, I don't think we would have done two transactions at one time", he explains, noting that this left the legal teams a huge amount of work to do in a compressed period. However, he acknowledged that it had to be done in order to take advantage of the pricing, stressing the importance of having advisers that can cope with processes running in parallel.

Getting the right relationship

Multiple transactions have also seen the scheme and sponsor establish strong relationships with providers in the market, in turn allowing them to take advantage of attractive, and fast moving, pricing opportunities. In the scheme's third transaction for instance, Giles noted that pricing wasn't quite as attractive as seen previously. He explained however, that as the scheme had all the processes in place and wanted to transact, it agreed to set a soft price target with PIC, in order to move as quickly as possible once that was hit.

He explained: "When we got into the lockdown period in early March and there was market volatility, pricing improved slightly and we could hit that transaction, as long as we transact very quickly, given the volatility. Given we had all the documentation in place for the other section, it was a much more straightforward process."

Furthermore, the scheme was proactively approached by Aviva in April for a potential £35 million pensioner buy-in, assuming the scheme could transact quickly. Giles explained that as the funding position had improved, the scheme was confident it could move quickly under the umbrella contract, with around a four-week period from the initial conversation the transaction.

Written by Sophie Smith

Scams: The ongoing battle

Pension scams are nothing new, but tackling them continues to be a challenge. Francesca Fabrizi looks at how far the industry has come in this fight, and what more can still be done

Summary

- The industry has come a long way in the fight against persistent and evermore sophisticated scammers.
- Yet the threat of pension scams remains very real amid the Covid-19 crisis and post freedom and choice.
- More can still be done by all facets of the industry, claim the experts.
- Going further than basic compliance could be key.

The industry is, without a doubt, working hard from all angles to tackle the ongoing problem of pension scams.

The Pension Schemes Bill, which is currently making its way through parliament, should, in several ways, assist in the fight; while the FCA, DWP and The Pensions Regulator (TPR), alongside all notable pensions industry associations and providers alike, are pulling together to help address this serious issue.

One key influencer has been the Pension Scams Industry Group (PSIG), a voluntary body that was set up to combat pension scams through the publication of good practice in due diligence for trustees, providers and administrators.

DLA Piper partner, and PSIG member, Matthew Swynnerton, explains: "PSIG has shaped how the pensions industry deals with due diligence to help combat pension scams and has been extremely vocal since its inception.

"We've developed a Code of Good Practice and are currently working with the DWP in relation to the proposed changes in relation to transfer rights to be contained in the Pension Schemes Bill and secondary legislation."

But while huge steps have been taken, the battle is an ongoing one, and whether we will ever beat the scammers is a tough question to answer.

Quantum Advisory head of administration, Jemma Jurgenson, comments: "Fraudsters are sadly a fact of life and there are always going to be people who want to make a fast buck and take advantage of the vulnerable or less savvy consumer. This is a particularly significant issue at the moment, given the uncertain world we find ourselves in."

Indeed, whilst pension scams are not a new topic, the threat of them has increased significantly in recent times, not only following the introduction of freedom and choice in pensions, but also because of the impact that Covid-19 has had on many household incomes.

For example, says Wealth at Work director, Jonathan Watts-Lay, "some may seek to withdraw from their pensions sooner than planned to make ends meet, and the increased financial stress of this can make individuals more vulnerable to scams".

Recent data from the XPS Transfer Watch also revealed that transfers exhibiting scam red flags at the point of transfer increased to a worrying new high of 62 per cent in September which, confirms XPS, represents a continuation of the rise seen since the start of lockdown.

Added to this, the scammers are becoming more sophisticated by the day, warns Interactive Investor head of PR, Jemma Jackson.

"Tackling financial crime has always been crucial, and whilst it is often more vulnerable groups most at risk, anyone can fall victim. Fraudsters are increasingly sophisticated and the whole industry needs to work together – there is no one solution, and this is reflected in the FCA's multi-pronged approach," she says.

Pulling together

So, what more can the industry do to help pension scheme members avoid falling victim? Working together is key, agrees Interactive Investor head of pensions and savings, Becky O'Connor: "For the industry, tackling pension scams feels a little like whack-a-mole: as one is successfully shut down, another emerges. A multi-pronged approach from providers and regulators that includes customer awareness campaigns, deterrents to scammers and swift enforcement makes sense."

Swynnerton concurs that all parts of the industry can and should be playing their part and argues that, as much as has already been achieved, we can always do more. "Member awareness of scams and the evolving tactics of scammers is vital. Most of us in the industry are able to play a part in raising member awareness in some way and should do so."

Alongside this, trustees and providers should familiarise themselves with the PSIG Code of Good Practice, he says, which sets out the key steps to help identify possible pension scams, as well as provides practical guidance like checklists and sample letters.

"Also, we anticipate that the Pension Schemes Bill will make changes that affect members' statutory transfer rights in circumstances (to be defined in the legislation) where there is a high risk of scam activity. Trustees and providers will need to familiarise themselves with the changes and adapt their current transfer processes accordingly. We anticipate

producing a further update of the code to reflect the changes, which we hope will assist trustees and providers in this regard," he adds.

Going that extra mile

In addition, while the FCA, TPR, PSIG and other bodies have issued comprehensive guidance on what is expected, Watts-Lay says that some leading employers and trustees are going further than just basic compliance to prevent employees and members from falling for a scam, by putting robust processes in place, especially for those nearing age 55.

"One of the key things should be to provide financial education and guidance, particularly when individuals reach age 55 and over. This is because it is so easy for individuals to access their pension savings, especially when under pressure from a scammer offering, for example, a time limited offer," he warns.

This, he adds, will help them to understand their options and the risks involved and, importantly, to understand some of the known scams out there.

"Arming employees with the facts on what they can and cannot do with their pension and the potential risks involved will help them to make informed decisions and avoid making costly mistakes," urges Watts-Lay. "We are now moving into a time where employers and trustees are increasingly wanting to ensure good outcomes and not minimum compliance. After all, it does not make sense for an individual to save diligently for 30+ years and then not put in a robust process to protect them at the point we know they are at most risk from scammers," he says.

Providing financial education and guidance can also help employees decide if they need anything further, such as regulated financial advice. If done correctly, says Watts-Lay, facilitating access to regulated financial advice does not carry the risk many presume, which should also come as a relief to employers and trustees alike.

"Introducing an adviser to a scheme after a thorough due diligence process can ensure that the responsibility for the advice given to employees, and the consequences of that, rest with the chosen provider and not the employer or trustee," he explains.

From an administration perspective too, Jurgenson agrees that, going forward, the importance of raising awareness of scams cannot be emphasised enough. "Without wishing to frighten people, we need to continually educate both scheme members and our administrators of the dangers. Just because a member signs a discharge form and an IFA confirms relevant advice has been given, doesn't mean we should blindly accept this as a green light to pay benefits," she warns.

"As administrators, we have a duty to constantly question where something doesn't look or feel right and to report it to the relevant authorities if we believe that something untoward is going on", continues Jurgenson; and in an industry where we are striving for more automation and better technological solutions, this is one area where human involvement is vital to try to spot where scammers may be acting in the background, she argues.

Finally, whilst there is no desire to obstruct a member wanting to make a genuine transfer (remembering that the vast majority of transfers are completely legitimate and legislation dictates that we cannot hold up such payments), there are ways to head-off a scam at an early stage, she says, for example, by sending scheme and transfer information directly to members and not to a third party. "This allows a member the opportunity to rethink if they are feeling pressurised. It might annoy those third parties, but the key is to protect the members of the schemes we look after and to use our skills and knowledge to ensure they aren't taken advantage of."

Alongside all of this, she says, we need to ensure that administrators have the time and training to ensure this proactive engagement is happening and not to just want to process each item of post quickly to hit targets. "All organisations need to ensure their administrators work within a culture where speaking up and calling something out isn't met with barriers."

The long road ahead

With so much already going on in the pensions space, it could be easy for all parties to feels it's hopeless trying to tackle this ongoing problem but, says O'Connor, it's important not to give up: "It would be easy for the industry to feel defeated, however it's vital to keep plugging away at this. There is no way to beat the scammers that doesn't involve a lot of determination, time and careful thought."

And with so much work going on behind the scenes, PSIG chair, Margaret Snowdon, is confident that we will get to where we need to be. "There is progress on the Pension Schemes Bill, with the introduction of mandatory guidance in prescribed circumstances and the expectation that trustees will be able to stop transfers that show certain scam signs (red flags), something we have been requesting for four years. Regulations will make it clear to trustees where there is no statutory right, while at the same time ensuring that bona fide transfers can proceed speedily. The Pensions Administration Standards Association (Pasa) new code will also help on speeding up straightforward transfers," she adds.

There will still be more to do because the factors that stop a transfer or make guidance mandatory will need to keep up with scammers' tactics; and of course, where there is no statutory right, trustees will need to be mindful of any discretionary right in the scheme, she explains, "but we are working with the Work and Pensions Committee and DWP to make it all happen as soon as possible", concludes Snowdon.

Written by Francesca Fabrizi

Dashboard dialogue

Following the publication of a pensions dashboards update, Duncan Ferris speaks to Pensions Dashboards Programme principal, Chris Curry, about the project's newly-outlined targets, technological requirements and how providers and schemes need to ready themselves

How have you come to set the 2023 target date for launching the dashboards and how confident are you about achieving that target?
There is a lot of work that has gone into working out what we think is a realistic timeline based on the base plan that we published. You can see from when the Money and Pensions Service (Maps) took on the project in 2019 that there is an awful lot of work that needs to be done, even though the Treasury first started this project back in 2016. It wasn't really until we got into last year that anything was really set up that was a serious delivery capability within the government to make pensions dashboards a reality. So, for us, the clock started back then.

We have spent the past 15 months or so on getting the foundations right. There is a lot that we need to get in place in a programme like this, that will make the delivery of dashboards on a more stable footing and easier further down the line. We have quite broad indicative timeframes attached to the timeline and one of the reasons for that is that this isn't just something that PDP is delivering; it is something that has required cooperation right across the government and in the pensions industry. We're confident in the timeline that was published.

How can providers ensure that they are doing everything they can to be ready to contribute to the project?
We think there are probably somewhere in the region of 43,000 different pension schemes and providers who will need to provide data for the pensions dashboard ecosystem, either directly or indirectly through an integrated service provider. That is quite a big challenge going forward. We will be publishing more information about the data standards and exactly what kind of data will be required before the end of this year.

Even before then, we know there are certain things that need to happen and are prerequisites for data to be able to go through the dashboard. One of the big challenges is just having the data in an accessible format; actually having it digital and in a way that can be accessed by the pensions dashboard. We know that there are pension schemes, especially those that have been around a long time, where not all of the data is accessible in that particular way, so that is the very first thing that schemes and trustees need to be doing.

We also know that one of the big challenges is going to be matching the data with the individuals who are requesting it. There are several different processes that schemes can be going through right now to make sure that they have the right personal level information and identifiers, such as name, national insurance number and address details.

How can projected retirement incomes be integrated into dashboards in a reliable way?
That is one of the big challenges we have got going forwards and again it is going to be touched on in the data update. It is safe to say that it is not an easy question and I think where we are at the moment in the programme and the remit we have been given by the Department for Work and Pensions is to present data that is already available through benefit statements or information on request.

As such, it is clear that when you look across defined benefit and defined contribution schemes there is not really a consistent way of showing an estimated retirement income that holds across all schemes and could be presented in a way that is easily understandable. However, we think from the consumer research that it is really important that the estimated retirement income is part of the pensions dashboards and part of initial dashboards if at all possible.

We will be looking at exactly how we can work with the industry to come up with a simplified estimated retirement income that will be meaningful and also consistent and comparable. I think it is fair to say that the industry has been looking at this in different working groups and forums for a long time. We are hoping that we can be the catalyst that takes this forward into something that can be used on pensions dashboards.

How are you ensuring that the technological infrastructure of the dashboards will not be out of date by the time it is launched?
We are being very careful with the specification for the architecture that we are looking at and to make sure that there is some future flexibility built into it. The design for the candidate architecture that we are looking to be procuring early in the new year is very much based around security for individuals, and knowing that only they should have access to their data, and also working in a way which is both GDPR compliant and very secure from potential external access.

We're designing the architecture to be incredibly safe and secure, but we are also trying to build in a capability to allow us to take advantage of evolving technology. One of the key areas for that is in the identity and verification space, where we know for example that the government has recently announced that they are keen on exploring further.

Digital identity is also an interesting issue, but we are not sure whether that will be in place soon enough for us to start using it on pensions dashboards. But as that technology develops and becomes more user friendly we want to be able to slot all of those things in so that the dashboards will have the most up to date technology.

What sort of resources are going to be dedicated to maintaining, updating and adapting the dashboards once they have been launched?
That is a question we have not really answered at this stage. We know it is one that we will be answering in the coming months and we will need to come up with a proposal. I think, although it is called the 'business as usual' stage, I don't think there will ever be a time when dashboards stop developing and evolving as technology and the pension system will continue to change.

There will always be a continual improvement process and that is something that we have seen in other countries with dashboards. They never stand still, there is always some development going on. We are expecting to hand over the responsibility for running the pensions dashboard service at some point after the compulsory onboarding stage. Right now, we are not entirely sure when that might be that we hand it to, for example, another part of Maps or something that is set up by the industry.

Has there been any kind of consultation or cooperation with organisations in foreign countries that have already set up similar systems?
We are in quite regular contact with some of the other dashboard systems, particularly those in Scandinavia and the Netherlands, to learn from what they have been doing. I think it is fair to say that they are not always directly comparable with what we are likely to be doing because the underlying systems are quite different. I have to say that I am yet to find one that has to service 43,000 different pension schemes; they are usually in the low hundreds rather than the relatively high thousands.

There are some very specific challenges for the UK here and one is that most overseas countries have some form of national digital identity, which is something that we don't have. The lessons we can pick up from them are about how they started to do things and their experiences of how individuals use the dashboard. It is useful to have that insight to test first rather than starting with a blank sheet of paper.

Written by Duncan Ferris

Summary
• Open finance has the potential to give savers ownership of their pension and control over their retirement planning.
• Data and accessibility issues continue to present a key issue for the pensions industry's adoption of open finance.
• Open pensions have a distinct purpose from the pensions dashboards, but preparation ahead of the dashboards could spur schemes into action.

Pensions – open for business?

Following the Financial Conduct Authority's recently closed call for input on open finance, Sophie Smith looks at whether the pensions industry is ready to open, and what a more open future could hold for members and schemes alike

Auto-enrolment (AE) is often highlighted as a huge success for the pensions industry, with an additional 10 million people now saving into workplace pensions. However, recent statistics from the Office for National Statistics found that nearly one in five (19 per cent) UK workers are unaware of AE, whilst Royal London research has shown that 19 per cent have "no idea" what happens to their pension contributions.

It is perhaps unsurprising then, that many savers feel a lack of ownership towards their pensions, as Scottish Widows retirement planning expert, Robert Cochran, explains. In particular, he notes a trend amongst savers of viewing pensions as belonging to providers, whilst money in the bank is viewed as the individual property. Adding to this, PensionBee head of corporate development, Clare Reilly, warns that there is a "huge disconnect" between the public messages from the government that savers must take responsibility for their retirement, and "a complete lack of practical tool to do so".

Giving savers ownership

"Ownership means that individuals will be able to get to know their pensions and thereby make decisions in order to prepare for or manage retirement," she continues. And whilst analysis by PensionBee estimates that 70 per cent of customers know the name of their provider, Reilly warns that replies can often take several months and require paper forms. "Consumers cannot have 'ownership', as the government asks them to, if they cannot access basic information like balances, charges, performance and investments easily online," she argues.

Considering this, Reilly highlights ownership via open pensions as a distinct, and perhaps more important, policy objective than reuniting savers with lost pensions through the dashboards. "Overall entitlements in DC pensions are closer to £1 trillion, suggesting that open pensions can create 50x more value to consumers than a pension finder service alone," she emphasises.

Plaid UK policy team lead, Kat Cloud, also argues that pensions currently are difficult to access, easy to lose, and hard to manage.

"For digital finance innovators, consumer-permissioned access to pension data unlocks the ability to create products and services to help people navigate retirement more easily," she stresses, "subsequently, consumers gain better tools to eliminate many of these hurdles and improve retirement preparation and management."

Indeed, Cochran argues that integration of pensions into open banking has the potential to completely change savers' relationship with their pensions, with consumers already looking at mobile banking an average of 26 times a month.

"By going to where people already go you start to be able to completely change the relationship with their pension," he states, highlighting the integration of Scottish Widows own pension services into the Lloyds Group platforms as demonstration. In July 2018 for instance, 52,642 members accessed their pension directly via Scottish Widows, compared to 331,140 on internet banking. The integration of mobile banking has also bought further increases, with members viewing their pensions alongside their Lloyds Group bank accounts 7.75 million time on mobile platforms in June 2019, 1.5 million times on internet banking, and 98,000 times directly via Scottish Widows. Furthermore, recent research from open banking platform, Bud, shows that whilst 34 per cent of people would use a feature that showed all of their investments and pensions in one place regardless of where they may be held if available on their online banking or mobile app, just 13 per cent would use such a feature on a standalone app.

Cochran highlights this integration of pensions alongside the wider financial considerations as a "clear way to deliver better engagement", emphasising that retirement savings must not be considered in silos.

However, Trafalgar House client director, Dan Taylor, warns that the industry should be mindful of the dangers of mixing short-term and long-term saving and investment decisions.

"Banking, savings and credit are all relatively short-term financial products that often benefit from active management and frequent 'best deal' swaps," he states, "the same cannot be said for pensions policies and investments". Furthermore, Taylor says that whilst many want greater member engagement, members shouldn't get into the habit of managing their pension fund in the same way as their bank account; warning that this could lure savers into a false sense of security if seeing relatively large pension saving sums.

Cochran meanwhile, argues that the digital nature of open banking allows for quicker and more accurate interventions via member communications.

"It's important and incumbent on us as providers to make sure that we're sending the right information to people at the right time," he explains, highlighting that amid the pandemic for instance, the provider has been able to react to member activity, with Scottish Widows' video on falling investment values receiving 293,000 views within the space of a few weeks. "That's one of the benefits of being able to see what people are doing online," he stresses, "intervening and giving them support that they need."

Win/win?

Taylor also clarifies that, for administrators, this could be the 'nirvana' that many have hoped for. "A simple, unified way to present data and information to members that is easily and universally accessible – it could take away some of the service strain, improve member engagement and liberate the consumer market to find more compelling ways to encourage saving," he explains.

And the potential benefits don't stop there, as Reilly argues that the Financial Conduct Authority (FCA) could open up data on costs and charges, in light of the recent news that they will not be included in simpler annual benefits statements. This in turn, she argues, would allow UK consumers to compare costs and product features for the first time ever, encouraging effective competition and widening access to advice.

Furthermore, Reilly states that there is evidence that open banking would lower the cost of advice, with many advisers estimating an average onboarding cost of over £1,500, due solely to the difficulties in obtaining data from pension providers.

However, Taylor warns that whilst open banking is meeting many of its original aims, technical hurdles are making it harder for larger providers to keep pace. "In terms of products to benefit customers, development has been complex and slow, and many practical applications are yet to be implemented," he says.

And whilst there are many potential benefits to open pensions, there are still barriers that need to be considered.

"The most commonly heard explanation for why pensions cannot be easily integrated centre around the lack of existing data standards across the industry, bad data, legacy IT systems and the sheer number of different schemes," states Reilly.

She stresses however, that none of these should be considered an insurmountable barrier, highlighting PensionBee research finding 40,000 pension schemes with varying levels of digitisation, with just 12 providers owning 80 per cent of the data in the ecosystem. The 'directed 12', Reilly explains, already hold digital records and can be compelled by the FCA, who regulates nine of them, to open up pension data to consumers via open source application programming interfaces (APIs); much like the 'CMA9' of open banking, who had a combined market share of over 90 per cent of the UK's consumer and small business bank accounts.

Furthermore, Taylor points out that the development of self-service websites and integrations with HR and payroll systems have already paved the way for wider integration opportunities. "Newer administration systems already have established APIs that can securely exchange data with external systems," he explains, "it's not a major leap to start using this to exchange and publish data into banking or other retail applications."

Data, data, data

However, Taylor warns that, aside from the technology challenges the pensions industry would need to address, there are also persistent issue of data quality, compounded by a broad lack of coherence on how pensions data is stored and managed.

"Pensions data, particularly where it is older, or more complex, is consistently holding the pensions industry back," agrees ITM director, Matt Dodds, although he acknowledges that the extent to which that is a convenient excuse, used to deflect from other shortcomings, is difficult to quantify.

In particular, Cloud highlights that most pensions and some insurance providers do not have digital data, let alone data that is machine-readable in a standardised format. "Without the data being online, there's no way for a TPP to access or build APIs to retrieve that data," she explains, "as a result, the firms will have to digitise all paper records, which is not a simple task."

However, Cochran states that the same data challenges are often highlighted in relation to dashboards, and therefore will be tackled in preparation for this. Indeed, Dodds says it would be foolish to approach the two in isolation, emphasising that a joined-up, long-term approach to data remediation and data management will help prepare for both.

Reilly also points out that pension schemes will soon be forced to clean up bad data, and ensure legacy systems are upgraded to pull important consumer data via API out in a standardised way, as these will be mandated by law ahead of the dashboards.

More broadly, she notes that open banking has shown the necessity, and impact, of using legislation, to drive change in a market low in innovation and dominated by a set of incumbents offering similar products.

A dashboard substitute?

However, considering the overlap with the pensions dashboards, and the amount of work already underway for this, is open finance truly the right answer for the pensions industry?

"Open pensions differ greatly from the government-led pensions dashboard," clarifies Cloud, emphasising that the pensions dashboards have only one use, to reunite consumers with 'lost' pensions, rather than addressing problems with pension information access.

Reilly echoes this, clarifying that whilst they are two distinctly different pieces of work, it is "imperative" that the dashboards develop in parallel with open pensions.

"Open pensions is a crucial component of open banking and opening up 'found' pension data should occur in parallel to finding 'lost' pensions via the dashboards," she explains. "These are two very different tasks that must not be allowed to occur sequentially, as the result will be that consumers wait until beyond 2030 to see basic pension data."

Dodds however, states that there is a lot of detailed consideration required to build the eco-system to enable dashboards, explaining that if done properly and with future considerations in mind, one could be the catalyst for the other.

Perhaps one of the most notable differences is in functionality, as Reilly clarifies that to have ownership over their pensions, members need to be able to know their pension and make decisions. And, according to Cochran, much of this functionality is already developing, with greater innovation, such as save the change functions which could allow savers to put the 'spare change' from transactions into their pension or other savings vehicles automatically, emerging.

"I think you start to move to a world where people can get support from robo-advice and other different bits of technology to help them manage their money in a better way, and retirement becomes part of that," he says.

Lessons learnt

Cloud adds that open banking has provided plenty of lessons learned to create a framework for open finance that "harbours innovation and improves consumer control and understanding".

Taylor notes, for instance, that big banks found that the strain of open banking and its technological pressures added to the legacy infrastructure problems they've wrestled with for years, warning that the pensions industry can look forward to the same due to wholesale change costs. He also highlights general poor performance in delivery of the required API Messaging as a major early criticism for open banking.

Open banking has continued to evolve to deal with these issues however, with the FCA now exploring how to transition to open finance, which Cloud states would guarantee consumers access to all of their financial data, including their pensions.

"Since Covid-19, the global fintech ecosystem has seen massive increases in adoption and consumers are realising the convenience and ease of money management that open banking bring," she explains, noting that many are looking to simplify the more complex areas of financial life, with pensions a prime starting point.

"If done right, digital finance will flourish under open finance," she adds. "We'll see an array of creative new use cases emerge that address nearly every corner of financial lives."

Indeed, Reilly argues that open pensions have the power to help everyone take responsibility for their retirement savings, stressing that the FCA not only has the power to enable this, but a duty to.

Written by Sophie Smith

Summary
• As regulation and attitudes change, pension trustees, sponsors and investment managers are expected to implement more responsible investment strategies.
• Although the landscape is changing, it may not be as simple as flicking a switch for responsible investing and the industry is presented with challenges on the road to improvement.
• Many understand that climate change and sustainability are long-term risks that cannot be ignored, and insist that education and collaboration can help the industry address the issues.

Hurdling the barriers to responsible investment

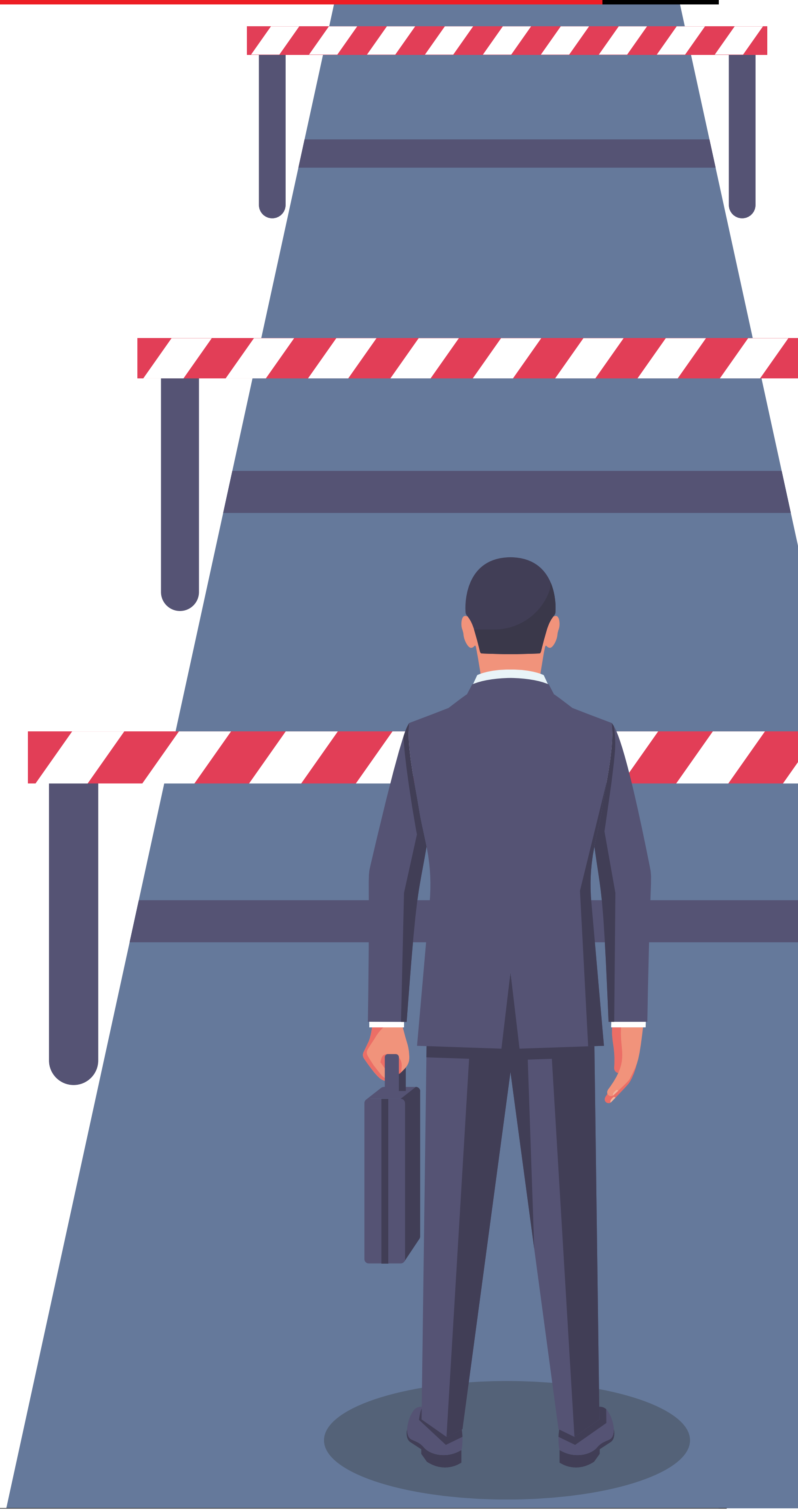
Although most pension schemes have increased their investments in climate-aware and sustainable funds, there is still a way to go to help meet the government's target of a net-zero economy by 2050. Jack Gray analyses the barriers facing schemes and how they can be overcome

With no end in sight to the ongoing coronavirus pandemic, it would be understandable to worry that responsible investment would be put to the back of trustees', regulators', and investment managers' minds. However, excluding the first couple of months of lockdown, one of the very few silver linings from the pandemic is that it has increased discussions in this area as the world looks to grow back greener.

The government has recently been spearheading the initiative in the UK, closely followed by financial regulators, to help achieve its goal of net-zero carbon emissions by 2050. The response from the pensions industry has been mixed, with some stepping quickly up to the plate while others have been slower to react. However, those less passionate about driving improvements in sustainability have had their hand forced with recent regulatory and legislative changes around climate-risk disclosures and transparency.

The hurdles

Although most firms, schemes and individuals in the pensions industry want to evolve with the times, there are hurdles that need to be overcome in the pursuit of a more sustainable future. "The main barriers to climate-aware pension investing are problems surrounding measurement," begins Earth Capital chief investment officer,



Gordon Power. "In recent years we've seen a concerted effort to converge around more standardised environment, social and governance (ESG) metrics, driven in part by the vast array of approaches used by different fund managers and rating agencies."

However, Power notes, even with more widely used metrics such as MSCI data, pension managers often interpret these metrics in different ways to produce their own ESG assessments. He warns that many measurement tools allow managers to overestimate their ESG performance and different managers' ESG ratings for particular investments can vary as a result.

"There are still issues around quality of data and how to interpret data," adds Nest responsible engagement manager, Katharina Lindmeier. While acknowledging that there has been significant growth in responsible investing, Lindmeier says there is still a risk that some in the industry see it as a "fad" and not the long-term risk that many others believe it to be.

LCP head of responsible investment, Claire Jones, agrees that there has been a "sea change" over the past two years, but warns there are still barriers in the form of inertia and slow decision making.

"It does take trustees time to become familiar with a new topic, make decisions and implement them," she continues. "There is also the practical problem that trustees have busy agendas, they have lots of things to consider, and typically only meet quarterly. We did see, particularly in Q2 this year, attention being focused elsewhere, quite understandably. Quite a number of schemes are dealing with more immediate issues, such as a sponsor that is struggling to fund the scheme, so that does inevitably make it harder to prioritise responsible investing."

Jones sees the availability of suitable funds as one of the larger issues preventing schemes from investing more responsibly. She notes that smaller schemes that need to access pooled funds, particularly defined contribution schemes investing via platforms, are quite limited in the choices available and sometimes there is not a fund there that meets their requirements.

However, Aon UK head of responsible investment, Tim Manuel, disagrees: "In terms of finding investments that are more climate aware, I don't think there are that many barriers. There are a good range of options and opportunities for pension funds to move forward with what they are doing."

His colleague, Aon senior consultant: impact research lead, Oliver MacArthur, believes the perceived abundance of available funds is an obstacle in itself, as it can be "overawing" in terms of the scale of them. "Some of the barriers are knowing where to start. It comes back to trying to have a clear approach on what you want to do. Otherwise it can be a chaotic state to navigate," he explains.

"If you are a larger asset owner you have the privilege of being able to use segregated accounts where you can essentially choose any index you like. In the pooled fund world there is a more limited choice but there has been a lot of growth in pooled funds recently. There is no shortage of products to look at, which can pose more of a barrier."

Navigating the hurdles

Despite the hurdles facing schemes and investors, there are ways to overcome them. Experience and expertise can be crucial, for both trustees and advisers, with self-education and astute adviser selections a key driver for success in this area.

Jones notes that understanding responsible investing is about being able to see beneath the name of a fund, completing due diligence into investment managers' approaches, and getting comfortable with whether and how well the fund is integrating ESG considerations into its process. "As trustees become more experienced in talking to investment managers about this, they'll get better at seeing through the 'spin' into the substance of the funds," she says.

"Pension funds must embrace impact investing," urges Power. "Separate allocations to both private and public market strategies are fundamental to implementing a sustainable capital strategy."

Manuel states that regulatory requirements around climate-risk disclosure and transparency has been most effective in driving changes in behaviour on trustee boards. He adds that everyone needs to contribute to bring the collective policy across the industry to "a better place".

"It needs investment managers, investment consultants, company sponsors and trustees to play their part. Although others do influence them, it is really the trustees that set the tone and the direction and there is a need for leadership from trustees collectively."

Lindmeier believes that schemes have leverage and power in driving change, due to being empowered by members and assets, and can make "a lot of demands of fund managers" to help the industry progress.

Collective engagement

It seems clear that collective engagement is needed to drive progress, as such a huge global issue is unlikely to be resolved one group. "Climate change is dramatically impacting portfolios," stresses Power. "The entire pension sector – trustees, asset managers and members – must wake up to this reality if we are to see the dramatic change required to turn the tide on global warming."

Manuel believes individuals need to think about how they can have the most impact and prioritising that action, which, for many trustees, will be getting behind investment managers and consultants and encouraging them to do better.

"Collective engagement has a role," Jones adds, "probably with different parties acting at different levels of the system. There is also an important role at the investment manager level for collective action."

Furthermore, schemes, providers and employers embracing responsible investment can help improve members' engagement with their pensions overall. The issues sustainable investments seek to address can appeal to members on a human level and with high-profile campaigns, such as Make My Money Matter, increasing public awareness of the role their pension funds can play, it seems like an opportunity to drive member engagement.

"We've seen a number of schemes do it quite successfully, but a lot of trustees have not yet embraced responsible investing as a way of engaging their members," says Jones. "There is potential to do quite a lot, I think members care about the real-world issues that are encompassed in the ESG acronym. The challenge is that if trustees are at quite an early stage of developing their sustainable investment approach, they may not feel ready to expose that to members."

Lindmeier concludes: "Everyone can have an opinion on this and are things that affect a lot of our members in their everyday life. Working conditions and climate change, these are quite accessible to members and it is a really good way of trying to engage them with their pension.

"We believe strongly that, to uphold our fiduciary duty, we need to consider these issues."

Written by Jack Gray

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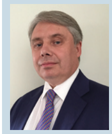
CHAIR

Andy Cheseldine, Professional Trustee, Capital Cranfield
Andy joined Capital Cranfield in 2017. Before joining Capital Cranfield, Andy acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pension arrangements and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013.

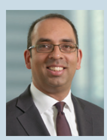
PANEL

Rich Dell, Head of Equity Manager Research, Mercer
Richard is a partner within Mercer's wealth business and based in London. Richard joined Mercer in 2008 as a member of the manager research team, and focused on researching and recommending investment strategies across a range of equity universes and geographies. Since 2013, Richard has been global leader of Mercer's equity boutique, one of three asset class teams within Mercer's manager research function consisting of over 40 investment professionals based around the globe. Richard joined Mercer from Fidelity International.



Bob Hymas, Trustee Executive, BESTrustees
Bob has over 20 years' experience of working with pension schemes. Following a senior in-house role at a multi-billion pound scheme, he joined BESTrustees in 2016. He is a highly experienced pensions professional and trustee and is either the chair, co-trustee or sole trustee of 12 clients. He values the broad range of experience of the boards he sits on and helps the governance process by guiding boards through complex issues. He is also highly experienced in negotiating funding arrangements.

James Jackson, Equity Manager Research, Aon
James joined Aon in 2011 and works as a senior equity researcher in the investment manager research team. James is responsible for research of global, emerging markets, frontier and regional equity strategies, with a focus on emerging markets. James is based in Switzerland and has worked on a range of manager searches and portfolio construction exercises for global clients. James previously worked for PricewaterhouseCoopers in its investment funds practice and was involved with mutual investment fund audit, tax and other consulting services.



Altaf Kassam, EMEA Head of Investment Strategy & Research, State Street Global Advisors
Altaf is a managing director and the EMEA head of investment strategy and research at State Street Global Advisors. He and his team are responsible for developing thought leadership and executing custom projects for clients across EMEA in the fields of asset allocation and portfolio construction, as well as working with global portfolio managers and strategists to develop multi-asset investment solutions. Altaf joined from MSCI where he published research on ESG, factor crowding and index analysis.

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Emerging markets: Not to be ignored

The role emerging markets can and should be playing in UK pension fund portfolios today and into the future is explored by our panel of experts from across all aspects of the pension sphere

Chair: Where do emerging markets sit today in the pension landscape?

Jackson: Aon is positive on emerging market (EM) equities today. We think they should be a strategic part of a client portfolio. Today I would point to three topical reasons for this.

At an asset class level, compared to a decade ago, it's a very different opportunity set to what it was. People have a perception that it's a high beta play, with big components of the opportunity set being energy and materials. Today, however, it is much more about domestic consumption and, for example, exciting world-class technology companies. Also, as a global opportunity set, emerging market equities including the higher growth technology companies, are relatively attractively valued, and we are seeing our global value managers buying some of these names.

In addition, China A-shares are a relatively new area and make the EM equities space interesting today. A-shares are far easier today to access for a lot of clients, and offer an exciting opportunity, with their diversification potential and alpha opportunities.

Then the final point, from a manager selection standpoint, is that it's a very concentrated opportunity set at the moment. But at some point, some of the areas that have decreased in size will get their time in the sun, so it should be a good area for active management on a forward looking basis.

Dell: At Mercer, emerging markets are a strategic part of our clients' allocations, but there are clearly challenges for pension funds. Many pension funds are de-risking; they're reducing their equity allocations; so building in a discrete or explicit allocation for EMs becomes more challenging, particularly if you want to do that actively. So, there are several questions around implementation.

But from a strategic perspective, I agree that there are reasons for having an explicit allocation to emerging markets. They provide diversification and we've seen that recently. If you look at the behaviour of markets like China through the pandemic, they provided good diversification from traditional developed markets. We're expecting to see that more as some of the globalisation trends we've seen in the past 10 or 20 years have, maybe not unwound, but certainly slowed down.

I also agree there's strong potential for active management in emerging markets,

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particularly at the moment given the dominance of a small, narrow area of the market. EMs are riskier but, over the long term, we believe that risk should be rewarded from a higher return. That does not necessarily mean better risk-adjusted returns, but we do believe EMs are likely to generate a higher return over the long run as compensation for just those higher discount rates in many markets.

Hymas: This is an area where size does matter. Larger pension schemes have been in the EM space for longer and it is probably an established part of their investment strategies and their portfolios.

It is interesting when you look at the smaller end of the pension market as to where they're going. We have touched on some of the points around what trustees are looking for and some of the challenges. The traditional equity/bond portfolios are a thing of the past now and the main move has been towards diversification and de-risking.

Are emerging markets a part of that? Not that much at the moment. Are they something that trustees will consider? The challenge for trustees is the changing environment trustees are working in. We are considering risk but at the same time we have increased regulation. So, to make moves into new asset classes is a harder and lengthier process now than it was two or three years ago. As the universe of assets available to smaller schemes has grown, the regulation has grown too. There's a challenge there and a balance to be achieved.

Kassam: China holds the key here, I believe. We have talked about diversification. If you look at broad emerging markets versus developed markets, the correlation between the two has been rising and keeps rising. So, it's hard to say that EMs alone add that much diversification to a portfolio, or at least it's less than it was a decade ago. But if you

look at China and if you particularly look at the China that isn't in the benchmarks, i.e. the more exciting factors in China that James *[Jackson]* alluded to earlier, if you access those then you do get some genuine diversification.

So, China holds the key both in terms of growth and diversification.

On the fixed income and equity side, this idea that the best way of accessing emerging markets is through active managers has also been challenged over the past few years, particularly on the fixed income side. Indexed approaches will be – again with this caveat that you need to add maybe satellites of China or small cap and other factors – the way that people access EM going forward.

India versus China

Chair: Accepting that we've got to look at the size of the investable market rather than economy or population, we have mentioned China, but no one has mentioned India. Between the two, they account for something like 40 per cent of the world's population. India is, in theory, more capitalistic than China. Do you not think that India could be as big a driver as China in the near future?

Kassam: What we've seen in China is that, like it or not, a centrally planned economy can pivot very quickly and put in force measures – such as lockdowns, direct stimulus and direct investments – much quicker than somewhere that has a democracy. What China has been able to do is move very quickly, shut down, and re-open; but India hasn't been able to do that. That's not just through the pandemic – the benefits of a centrally planned economy have held China in good stead even beforehand.

That does bring up all kinds of governance questions, but the plain fact is that being able to march a billion people in a given direction very quickly has really helped China weather the storms that we've seen over the past decade. India has a lot going for it. It has a much better demographic picture, and it has the English language much more at its core, but at the same time, in a sense, it's been hampered by democracy.

Dell: I would agree India is part of the long-term investment landscape and needs to be considered. In the near term, China has just demonstrated that it has the ability to develop and innovate solutions that provide genuine disruption and challenge to the established world order which provides some fantastic investment opportunities. If you think of some of the largest companies in the world that have come out of China that are disrupting the world, these are the opportunities that investors are looking to gain exposure to at the moment.

The pandemic

Chair: How has the recent pandemic affected opportunities in the EM space?

Jackson: There has clearly been, within EM equities, like global markets, winners and losers. At the country level, North Asia, China, Korea and Taiwan have coped with the virus much better for some of the reasons that have been discussed. Also, index composition of these markets has helped, being more technology related.

At the other end of the extreme, countries with weaker balance sheets, or more tourism dependent economies

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have struggled. This has created a very accentuated and concentrated benchmark, which was already quite concentrated. This will give rise to the perennial question of whether an active or passive approach is preferred. The concentration to date has been good for passive investors. They have benefited from the increase in exposure to the markets that have done well.

But, on the other hand, some of the places that have really struggled – such as Peru, Indonesia and Brazil – they've shrunk further in the benchmark and it's only going to be a very active approach that can get material exposure to these areas. That's something to think about going forward.

Also, on the manager selection side, the pandemic has illustrated how managers that can move and be nimbler can be advantageous. Compared to some investors, we are at Aon – on the EM side – can be more tolerant of managers that have a slightly higher portfolio turnover, or at least ones that can react to changes faster, and this has been very helpful in a period like this.

We've spoken about China A-Shares already but it is important; there's a large number of companies and chunk of market capitalisation in the world that hasn't been as affected by the virus. China's handled the crisis better, has a more domestic orientation. Yet this market segment has largely been out of bounds for people invested through a global equity manager. The current benchmark allocation is still very small here, so this again points towards the benefits of an active approach in EM.

The final point I would make is, because of the very divergent performance by sectors, styles and countries, there is risk of some unwinding of the prevailing trends. It obviously makes sense to have a relatively balanced portfolio of managers or at least have used managers that are a little bit more agnostic to strict style buckets.

Dell: The key impact of the pandemic – and this is the same globally, but equally true in emerging markets – is the acceleration of trends that we've seen over the last decade. James [Jackson] has highlighted the changing nature of emerging markets; what people thought of emerging markets in the past and what the opportunity represents now. That has clearly been accelerated.

The consideration for investors is a concern around the index construction of emerging markets. You now have super concentrated benchmarks with a few names dominating. One interesting stat is that you have one stock in the index that's larger than the entire component of India in the index. So, Alibaba represents nearly 9% which is more than India in the index.

I would argue there's a question as to whether it is prudent capital allocation to put your assets in an index where you have such high levels of concentration. It may well get more concentrated from here. However, I don't believe that's a sensible risk allocation where the top three stocks account for more than 20%.

So, we don't know what's going to happen. We don't know how things will evolve, but I think it's a great opportunity for active management and at some point, these trends are likely to reverse. Things don't concentrate forever and,

when that concentration reverses, we think investors are best placed to be the right side of that unwinding. That probably means active management.

Hymas: The debate that trustees have when looking at EMs or any new asset class is how much diversification is it bringing in, but also recognising that economically there is a move away from globalisation perhaps because of external factors such as pandemics, Brexit and so on. So, while diversification is certainly part of what emerging markets will provide, is that the right way to go? What additional risks is it bringing? How many unknowns?

You think about the situation with China, trade wars with the USA, the US election for example, and it brings me back to my starting point – larger schemes are better placed to deal with some of these issues and are more able to make decisions on them, whereas smaller schemes are going to struggle.

So, while I don't think it should ever be something excluded by small schemes, the barriers for them moving into emerging markets are probably greater than for the larger schemes. When I say larger schemes, I don't just regard that as being a measure of asset size or liabilities, but larger in terms of resources to manage the scheme and the level of sophistication in terms of the trustee board.

Kassam: We all acknowledge how the FANGs (Facebook, Amazon, Netflix and Google) in the US are concentrating the market, but in emerging markets the concentration problem is just as bad, if not worse, with the BATs (Baidu, Alibaba and Tencent Holdings).

So, there's a big concentration issue in emerging markets, which is why it's been a tough environment for emerging market active managers to outperform the benchmark in the past few years. That

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said, on the debt side as well we've had issues.

When we talk about markets broadening it's been helpful but, at the same time, what's going into these benchmarks isn't always the interesting, the growth, the consumer-oriented parts of the market that you want, but more the state-owned enterprises, the big multinationals. So, benchmarks have been broadening but not necessarily in the right way.

In relation to the pandemic, initially there was a big risk-off, risk aversion approach – people pulled out of emerging markets. That created opportunities, particularly on the FX side, which then parleyed into say, local currency debt. So, we do think some of the opportunities that have opened up are worth capitalising on. It's a brave person who buys on dips, but we do think that this is a good time to be entering into emerging markets, especially on the fixed income side and especially in local currency.

Are emerging markets still emerging?
Chair: It seems to me that emerging markets are big enough now that they can start driving their own agenda without being totally reliant on non-emerging – are emerging markets still emerging or are they almost there?

Kassam: Emerging markets are becoming more like developed markets – if you look quantitatively at things like valuation; if you look at correlation, in particular, that's been growing in emerging markets versus developed markets. So emerging markets *have* emerged to a large extent and are becoming more like developed markets. They're less different than they were.

Before, you had two arguments. You had the growth and the diversification argument. Now you still have the growth argument, but the diversification

argument has gone away, to an extent. But that means you still should be looking at emerging markets but taking more of a core-satellite approach. The core emerging markets in the benchmark are worth holding for that growth exposure, but if you want genuine diversification and if you want access to some of the more interesting opportunities, you need to take on satellites and we've talked about China, and small-cap exposure for example, so moving outside the core.

Then, if you're feeling brave, it is worth looking at frontier markets as well. What have been thought of as emerging markets before have definitely become more like developed markets, but there are very interesting satellites that are now more accessible, which we think investors should be looking at.

Hymas: We compare a developed market to an emerging market. You could argue that you should be comparing developed to undeveloped. With emerging markets, we aren't investing in some wild west frontier. There are established practices. There are established markets. There will be some riskier areas, but emerging markets present just another opportunity and are therefore another option that exists.

Dell: It is true that some emerging economies have emerged. China is the second largest economy in the world and, at some point in the next couple of decades, it will be the largest. So, to call it emerging is perhaps a misnomer. But there are still other considerations when we think about emerging versus non-emerging, such as property rights, behaviour of the government and rule of law, which creates additional risks in emerging economies that aren't necessarily in developed economies. Those things do need to be considered and that's potentially why there is a reasonable case for having a segregation.

The second point is in relation to correlation. Clearly correlations have increased between emerging and developed markets over the last 20 years as these economies have become more global in nature and investors have become more global. Going forward, we would have some questions as to how those correlations will unfold from here and, potentially, see more diversification benefits from the emerging markets in the next 10 years than we've seen in the last 10 years.

These economies, particularly China, are incredibly self-sufficient. They're not as reliant on the US as they were. There are also fractions in the world which are causing disruption – whether it's trade tensions, the pandemic, Brexit. They're causing some of these economies to behave more locally in nature and certainly, when you have non-democratic countries, they are going to behave differently to most of the western democratic economies.

So, there's a case to put forward that we might expect more diversification benefit from emerging economies in the next 10 years than we've seen in the past 10 years. That amplifies the need to have some exposure to these economic drivers which are going to be different going forward than we've seen in the US and Western Europe.

Hymas: It's also interesting to consider the influence that China has on all other economies. China is the

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second largest economy, but it does also invest heavily in other economies and influences those economies. There is possibly a political agenda as well as an economic agenda there.

You could almost argue that, wherever you're investing, you're getting some exposure ultimately to the Chinese economy in some way.

EM allocations in pension portfolios

Chair: EM assets continue to be under-represented in most pension portfolios. Why is this and will this trend change?

Kassam: There is a big home bias when it comes to UK institutional equity ownership. That must be eliminated. There are lots of good reasons why that's existed in the past and, over the past decade, we have had this windfall for UK asset owners who've held international equities and seen sterling depreciate so they've had their returns flattered and so the bias hasn't mattered so much.

We think that trend is pretty much played out and so we do think that home bias that has existed – that has meant less international equity ownership and by extension less EM equity ownership – is going to go away. That's a pretty simple mechanistic reason we think there's going to be more investment in EM equities.

Also, a lot of managers have been holding UK equities in particular for their yield. That's going to be challenged going forward too. They're going to need to pick up yield from somewhere. EM equities offer a higher yield.

Finally, for return reasons, we do think in the way we model our asset classes, EM equities have got the highest medium- and long-term outlook. So, for investors who need the 6 per cent, 7 per cent or 8 per cent return that they've promised to their pensioners or their stakeholders, moving into EM is one of the only places that they can go.

There's been a perception that EM is fragile, but actually EM has spent the past 10 years building up its coffers. It's in a much less fragile and much more fiscally and monetary stable place.

Looking ahead, we think perceptions are going to change. The rise of China is inevitable. The bond market is much more liquid than it used to be. The equity market is growing and broadening. So, we think that for structural, as well as valuation and return-seeking reasons, this trend is going to change.

Hymas: It's different for different schemes and different sizes. The basic proviso that I would suggest is that EM is seen as having additional volatility. It is seen as bringing new risks, so that is always going to be a challenge for some schemes. Saying that, the perception is changing and, as that changes, it will start to form part of portfolios in a larger way. At the moment, it is still seen as something which is a little bit different and a little bit riskier.

The view that is being taken by trustees today and encouraged by The Pensions Regulator is that we should be looking at risk very carefully and the drive is towards lower risk rather than higher risk. If the covenant can take it, then yes you can have the higher risk, but all covenants have probably been damaged in some way over the past few months. So, an evolution is taking place, but it is not quite there yet.

Dell: Despite all the strong reasons why investors should be considering

emerging markets, we still see it under-represented in many portfolios. Many pension funds are reducing their equity allocation and emerging markets is a small part of that overall allocation. So, it becomes a question around how much effort you want to put into getting exposure to a relatively small part of the market. We see that conversation becoming harder as equity allocations reduce further. It is complex; it does come with risks; it's not an easy allocation to make.

So, it is under-represented. Whether it will change meaningfully or not going forward, I don't know. The one thing I do think though is that we might see more people looking explicitly at China.

There is a more intuitive understanding of why you want exposure to China because everyone is aware of the impact it's having on their lives.

Hymas: Every investment presents risk and it is the trustees' responsibility to understand those risks and work out how those risks fit into the portfolio and the strategy. Part of the challenge which exists now is how much time can be afforded, and is available, to understand those risks. They are new risks and they are different risks, which take time to understand.

For most trustees, the governance budget is tight, especially in the current pandemic, and we have plenty of other challenges to be dealing with. Unless there had been an allocation to EM pre-Covid, I see it being a while before that will change because of everything else that we're facing.

Jackson: I would emphasise the need to look at this on a case-by-case basis. We do have several UK pension schemes that have dedicated EM exposure through specific managers. But we do also need to look at the global equity managers as well. Particularly because of the rise

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of some of these attractive large EM technology companies, it has meant that its very common to see such companies in global portfolios, and we are seeing all different investment styles on the global side allocating to emerging markets.

Then another lens we should be aware of is that developed market listed stocks have underlying revenue coming from emerging market countries. So, we need to look at these things case-by-case.

There is also a question of whether being underweight emerging markets has hurt portfolios. Compared to global, over the past decade EM has lagged, so that's another reason why potential clients might not have gone there.

Then I would echo the points that have been made around the comments for standalone EM allocations. Traditional UK DB schemes are de-risking, simplifying schemes. Many are getting good EM exposure via global managers. Refining a separate EM allocation to the nth degree often just does not make sense.

EM debt

Chair: we have talked about EM equities. Should we also be looking at EM debt?

Hymas: Yes, we should. It is all part of the global economy. If we're looking at emerging markets, we've got to look at the debt opportunities as well as the equity opportunities.

Kassam: I agree, asset owners should definitely be looking at emerging market debt. Clearly, there's an increase in risk; it's a different risk. If you look at it on the risk/return spectrum, it lines up perhaps with global high yield, so if you're comfortable moving up the risk spectrum, then taking on emerging market debt makes sense.

The market is growing; it's getting more liquid, so it's less difficult to navigate than it was, say, a decade ago.

But you still need to be aware that it's beyond the risk profile of, say, developed market corporate bonds.

Opportunities have definitely opened up. Local currency issuance is growing. So, on the hard currency side or US dollar side, we think that is going to benefit from what we see as a secular depreciation in the dollar. We think the dollar has reached a plateau, so that is going to help.

On the local currency side, a valuation gap has opened up because of the reaction to the pandemic which was a lot of risk aversion. So, we think you can gain on the currency as well as on the income side.

For investors who need yield, who aren't finding it any more from developed markets, we believe moving into emerging market debt makes a lot of sense. There are risks and active managers have not really shown themselves as so good at handling those risks, so we would favour an index approach there as well.

Dell: There is a massive market in hard currency and local currency debt, and it is something investors should be considering. It does come with risks. There are then decisions around local currency and hard currency. Hard currency tends to be a bit more volatile. There are hedging costs associated with this as well, which need to be taken into account. There are also things like ESG considerations that can create some questions. So, it comes with governance questions. It comes with more volatility and more risk, but the size of the market requires people to give it attention. As we have said, in a low returning world, it is an area where you do get an increased yield.

Currency in the EM space

Chair: Emerging markets hard currency debt has traditionally been favoured as the depreciation of sterling versus US dollar has added an extra windfall return. Will that trend continue?

Hymas: Trustees need to be assessing the risks which they are taking and understanding what it is they are trying to achieve. If part of your investment strategy is to have some currency exposure, then the level of exposure needs to be factored in. It varies from trustee board to trustee board.

Is it a local currency or is it hard? We have just got to see how the market evolves and follow that trend. But trustees do need to go into this with their eyes open and recognise it is an additional risk.

Kassam: For us, on the local currency side, a big valuation gap has opened up, driven by the risk aversion we saw in the first quarter. We think that is a risk or a return premium that you should be taking on. We do think investors should move into local currency bonds and we don't think they should be hedging the currency risk. We think that valuation gap will start to close on the currency side and that will favour local currency debt.

On the hard currency side or the US dollar side, again we do think the dollar's going to enter a down trend, so it does make sense to hedge that risk.

In the past, hedging dollar exposure (a) has not made sense because the dollar's been appreciating versus sterling

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and (b) has been costly because dollar rates were much higher than sterling. But now, with dollar and sterling rates basically having converged, that hedging cost is much lower, so it's a more attractive approach.

For us, moving into emerging market debt makes sense. Between the two, if you are looking for a great entry point, then we think local currency makes sense because the FX has depreciated. But if you're looking for something more steady, then going into hard currency or US dollar issuance but hedging the currency exposure makes sense.

We talked about home bias earlier in the equity space, but there is a big home bias in the fixed income space too. Many institutional asset earners have sterling liabilities that they want to hedge and the best way of doing that is with sterling bonds.

But given the very paltry yields we have now and the massive duration of the UK bond market, the risk/reward is looking punishing. Moving overseas and hedging that currency risk at least in dollar issuance makes sense to us. We see a lot of reasons for moving out there.

Dell: I would add that there are clearly opportunities in hard and local currency. There are differences in terms of the risks. If you have a macro view of how the world's going to unfold, then that will impact whether you want to go in hard currency or local or increasingly we're seeing people looking at blend approaches which combine the two.

There are different volatility profiles and we have already touched on hedging costs, and every pension scheme, every investor is going to be driven into slightly different conclusions depending on what their objectives are, what their risk tolerances are, what their governance budget is and what their understanding of the asset class is.

Looking at China

Chair: China A-shares having been added at an increasing weight over the past few years. What does this mean for investors?

Dell: Exposure to China in benchmarks has gone up. What does that mean for how investors access China? The options around whether to use a passive or active approach in emerging markets remain. Regardless of how you invest, your exposure to emerging markets is going to increasingly become dominated by a single market - it is now over 40% of the MSCI index.

This does raise questions – particularly for people who are looking at an active implementation – around whether it continues to make sense to allocate to emerging markets as a single region or whether you should look at China as a standalone region. If you do look at China as a standalone region, do you want to consider having investments just in offshore China shares, or the onshore market? Or do you want to look at an investment across the two, a kind of blended approach between offshore and onshore China that allows managers the freedom to pick where the opportunities are most attractive?

That is going to be the key question in the emerging market space over the next three or four years. How do you think about allocating to China and do you do it on a standalone basis?

Jackson: Speaking to the increase in the A-share allocation to the MSCI benchmark, from our perspective,

we do see A-shares as part of the full opportunity set. We like the idea of China A-Shares. It's an inefficient market; there is a high alpha potential, and that's been illustrated this year for both standalone China A-share allocations or within sufficiently active emerging market equity portfolios. For the active GEM managers the benefit has been seen in performance attribution this year, and allocations to A-shares have been able to offset some of the narrow market leadership, where a handful of the big names in the index have driven a lot of within-index attribution.

Whilst the A-share companies are available for access, the benchmark allocation still remains very low relative to the total opportunity set that there is. Not all EM managers are fully agnostic for different reasons – they may be either unable or unwilling to move significantly into this area before the full benchmark inclusion.

So, for appropriate clients – so risk tolerant ones, with high equity exposure, that are relatively sophisticated, and where it fits with existing allocations – we do have a positive view in recommending a standalone China A-share allocation.

On the question of whether to do A-shares or make a broader China allocation, the consensus from asset managers seems to be that China will be broken out as a separate asset class. That's possible, but we've been saying this was about to happen for quite a few years now.

So, for us, at the moment, we're recommending A-shares where you don't typically have as much overlap with your global and EM managers. Perhaps further down the track, as more of the A-shares come into the index, that's where you might be able to break out an All China allocation and do EM ex-China.

Kassam: We have to remember that

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in the developed world or developed markets, the US is about 60 per cent of the market cap. So, if we're comfortable with that, then we're comfortable with China being 40 per cent of EM. But what you get in the current benchmarks is more old economy China, it's more the established companies, there's a lot of state-owned enterprise, a lot of energy, a lot of financials.

What you would like access to is the more consumer-oriented, the more tech-focused companies and you do get some of them in A-shares, but the A-shares are very concentrated to a few names. For us, the answer is definite. You need a standalone China allocation with an active manager who has a 'go anywhere' policy, so across A-shares, H-shares – all the alphabet soup of China investment, and that is added on to your current emerging markets exposure. There is a small problem of overlap, but hopefully you can manage that.

The same thing has been happening on the bond market side. We have talked a lot about the risks of China, but China bonds were incredibly stable through the Covid crisis. They didn't have the liquidity issues that we saw in US treasuries. Who would have thought that you could have had the run on US treasuries that we saw in the depths of the pandemic in March? But the Chinese bond market was very stable, had actually increasing liquidity, and the currency remained stable, so Chinese bonds have really proved themselves. And, we are getting more enquiries recently about a standalone allocation on the fixed income side to China as well.

ESG today

Chair: Where does ESG sit in discussions around emerging markets?

Kassam: Whenever we talk about EM, whenever we go around especially

the Nordics and the Dutch markets, there is some scepticism raised especially about China. Are the numbers believable? Is this realistic? One way we think of addressing that is having some kind of quality overlay. A good way of doing that is using governance, using ESG broadly as a filter, to see where there may be some questions and weeding out those questionable entities.

Just like we've seen in developed markets, we've seen a big interest from UK asset earners in moving into ESG types of investment in emerging markets as well. It's hard to quantify that. It's hard to justify that in the same way that you can in developed markets because the coverage hasn't been around for so long. Certainly in the early days the coverage was quite thin.

Also, it's hard to give a pure data-driven justification for ESG, but we think it gives you that quality bias which offsets a lot of the inherent growth biases that you might get through active managers. It gives you that kind of governance overlay, which helps give you a bit more of a surer footing. You do take on less risk and so potentially less return but for some investors, that's a good trade-off.

Chair: ESG is a very topical issue in the UK pensions arena because of the introduction of the implementation statements and the requirements on pension schemes to demonstrate stewardship and engagement. There is going to be some reliance on the consultants and the managers here from a trustee perspective to help us achieve this. What is already becoming apparent though is that getting the information we need is not proving to be as straightforward as one would expect.

Once you start to see a little bit of information, that does then lead to the inevitable additional questions. This is not going to be a tick-box exercise and certainly the larger schemes are already looking at how they need to be more involved in this process. For smaller schemes, it might be a tick-box exercise.

But the challenge in investment across the board and particularly in EM is getting the right information and being satisfied with that information. We will need to address that because it is how trustees are going to start being measured and being challenged. Not necessarily by members, but by The Pensions Regulator.

Dell: There is sometimes a view that investing in China or emerging markets does not go hand-in-hand with ESG investing. In fact, the two are even more intricately linked than elsewhere because of some of the risks, particularly around governance. You talked about reporting – it's critical that when you're looking for managers to implement an emerging market strategy, they have a high degree of ESG integration.

Now, that is harder if you're looking at quantitative solutions because they are more reliant on quantitative data and backward-looking information. So, it is harder to do. To an extent that is offset by having much more diversified portfolios, so individual names which may run into issues, become less impactful.

Certainly, on the traditional stock picking side, we think having a fully embedded ESG framework, including governance and sensible engagement and stewardship policies, is critical.

Part of our role as manager research professionals, is to ensure the asset managers are doing what they say they're doing when it comes to looking at things

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like governance and making sure they are genuinely taking it into account.

There's a big issue in EMs and globally with what you might call 'greenwashing', with asset managers saying they're doing something on ESG and, in reality, not doing quite what they say they're doing. In emerging markets in particular, it's critical that they are doing what they say they're doing and one of our key roles is holding them to account.

Jackson: Aon is very supportive of ESG and particularly within emerging markets. All EM managers worth their salt should have had a focus on governance for a long time and they generally have. Governance issues are, on average, worse in EM. Company structures are different, ownership structures can be very different, so it's been a fairly obvious and important area for EM managers to explore for a long time. That's not just the quality orientated approaches. There is far more work to do for EM managers on the 'E' and the 'S' sides, particularly integrating that into the investment decision-making process.

On ESG broadly within EM, different investors will have different takes on this. We do need to be conscious that standards are worse in EM on an absolute sense -board governance, gender equality, disclosures, etc. But, on the other hand, we don't think ignoring the asset class is the answer.

Supporting managers that do engage and do try to improve things at the company level is where you might be making more of a difference compared to developed markets where standards are on average higher.

Trustee considerations

Chair: How do trustees keep abreast of all the issues we have discussed today?

Jackson: There is a lot of change. What we want for clients that have EM allocations is to be making the most of the opportunity set and the most obvious potential omission at the moment is China A-shares. It's a big part of the opportunity set that might be overlooked, either through relatively low benchmark allocation or a manager that's not investing there. It is happening now and it's benefitting clients today that have allocated or have managers that can go there.

Allocating to these shares has been very helpful in these recent markets that have been quite narrow. Despite being small in the index, they can be large in market capitalisation and are liquid and their share prices have moved just as much as some of the big tech names in the main index, so it's been very useful for active managers.

In terms of client action, trustees should certainly review their managers' capabilities in this space but also allow the managers to have freedom to invest.

Dell: Pension funds should be keeping up to date with how the index has changed. We've spoken about the changing opportunity set and the growth of China in particular. For many investors, the index is the starting point, so just keeping abreast and aware of how that index is changing and what that means for the risks embedded in your equity portfolio is important.

Trustees should also keep engaging with active managers on their capabilities as these opportunity change – specifically, their manager's capabilities and how they're evolving their capabilities to invest in the onshore China market. Some managers have adapted better than others – whether that's by hiring talent or developing processes that work in China. So, engaging with managers and having a discussion with them about how they're evolving is key.

Kassam: As a manager, especially in this travel-challenged environment, having local intelligence, having at least alliances or tie-ups with people who can help you understand what's going on in a local market, becomes more important.

We have talked about benchmark change. Just trying to keep abreast of that as much as you can is also key. So, stay in dialogue with the major benchmark providers, both on the equity and the fixed income side. It is all about China today, we've mentioned India.

We could be talking about Saudi Arabia in a couple of years' time. The landscape keeps changing. If you go back to when the emerging markets index began, the biggest weights were in Mexico and Malaysia, so things have clearly changed, and they are going to keep changing.

So just staying abreast of (a) what the benchmark is doing and then (b) making sure that the active managers that you have in your stable are managing around those benchmarks is what we would recommend. You do not want to duplicate that benchmark exposure; you want to add something complementary.

Hymas: If you go back a few years post the financial crisis in 2008, we all concluded they were some unusual times, but those unusual times have now become normal times. So, challenge and unusual events are normal. We're going through that again now. We need to look at what is happening and understand what these challenges mean to our long-term objectives and how they are mitigated or embraced.

Imagining CDC now

As legislation to make collective DC (CDC) schemes a reality continues to make its way through parliament within the Pension Schemes Bill, *Pensions Age* asks how CDC schemes would have fared if they had existed in the UK during the outbreak of Covid-19

Imagine the draft Pension Schemes Bill could 'speak'. It might say that, as long as its new regulatory framework was being adhered to, a CDC scheme should be able to weather adverse conditions – even fairly extreme ones – during its lifetime without materially impacting member outcomes. It might also point out the importance of The Pensions Regulator (TPR), who stands as gatekeeper at the beginning of a CDC scheme's life. Amongst other things, TPR needs to be 'satisfied that the design of a collective money purchase scheme is sound' before granting authorisation and allowing members to start saving. Even if, in practice, the design of a CDC scheme can withstand Covid-19-style volatility, member perception of that resilience and understanding of how their benefits work is surely just as important – to avoid, for example, poor financial decisions (such as inopportune transfers out) in testing times. The key here is effective communication. The bill might say it has tried to address this aspect by the requirement for CDC schemes to demonstrate that they have an adequate communications system in place – and one that TPR is satisfied ensures information given is 'correct and not misleading'.

Sackers partner, Ferdy Lovett

As with any hypothetical question, the answer must start with 'it depends': in this case, on such key factors as for how long the scheme had been established, the asset allocation, the membership demographics, and the average time to retirement. In general though, compared to other money purchase arrangements, CDC schemes are more robust and would have been better equipped to ride out the storm of the sudden fall in asset values in spring 2020. By contrast with an individual DC arrangement where the member bears all the investment risk, this is shared with other members in a CDC scheme and spread over time, enabling smoothing of retirement income.

Aries Insight director, Ian Neale

As we've seen the performance in most asset classes bounce back well, it is likely that the investment market effect of the pandemic would not have been very pronounced. However, with interest rates falling to new record lows, there could have been an effect on the discount rate, changing the scheme funding position. With many companies and their employees finding themselves in difficult financial positions, it may be that the affordability of previously agreed contribution levels going into CDC schemes may have needed to be reassessed.

Redington head of DC and financial wellbeing, Jonathan Parker

We looked into this very question in our recent briefing *Collective DC in Adverse Markets.* What this research showed is that our sample CDC scheme would have suffered a fall in asset values in spring 2020, like almost all pension schemes. But the risk-sharing mechanism inherent in the CDC scheme design meant that the scheme would still be expected to award increases to target incomes for members, albeit at a lower level than had been expected when we entered 2020. In summary, the impact of the pandemic on CDC members would have been less severe than on typical DC scheme members. We also extended the testing of the sample CDC scheme back over time and found that over the past 90 years, the only occasion when the sample CDC scheme needed to cut benefits was in 1931 as a result of the Great Depression. Of course, we don't know how markets will perform from now on and future cuts remain possible. Nevertheless, the backtesting confirms our sample scheme would have lived up to its design by providing members with an income for life from DC savings.

Aon head of retirement of UK retirement policy, Matthew Arends

Pensions history

Sixty years ago

Addressing the Autumn Conference of The Association of Superannuation and Pension Funds in November 1960 on the investment aspect of surplus or deficit, George Ross Goobey said that he had been asked to deal with the investment implications involved in the consideration of the surplus disclosed by the quinquennial valuation of a pension fund.

He went on to explain that in most cases such surplus had emerged as a result of the investment policy having produced a higher rate of interest earned on the fund over that assumed by the actuary. In other cases a surplus had been produced by the fact that the actuary had been able to assume a higher rate of interest than previously, as a result of the improved earning capacity of the fund so that the actuary was willing to assume that some of the improvement would be maintained for the foreseeable future.

With regard to the excess interest earned in the previous five years that was fact and could not be disputed. He considered it quite proper that this formed part of the disposable surplus. The advisability of assuming that the improved rate of earnings would be maintained was a matter of opinion and depended entirely on the future investment outlook.

"My views on this are very much unchanged from when I addressed the 1956 Autumn Conference of the association….my arguments have been accepted in our own fund and the chairman of the investment committee has gone on record as saying that he can find no one that does not think that in the long run we are more likely to have inflation rather than deflation, in which event there is every case for equities and none for fixed-interest securities," Ross Goobey said.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

L	E	V	K	E	C	N	A	N	I	F	N	E	P	O
S	M	T	D	R	A	O	B	H	S	A	D	Q	G	T
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Q	G	U	I	O	C	U	J	A	T	M	E	A	L	T
V	I	E	R	P	V	R	Y	W	A	V	R	U	O	Y
Q	N	E	H	L	Q	X	T	I	I	K	U	U	R	X
N	G	Q	Z	L	S	U	S	T	N	W	D	U	Y	S
E	M	W	V	A	R	R	C	P	A	S	Z	U	A	N
I	A	S	F	M	L	E	A	C	B	Y	I	V	P	Q
L	R	H	U	S	L	T	M	S	I	S	I	A	P	S
J	K	Z	P	L	R	B	S	R	L	D	B	S	I	L
B	E	P	O	G	R	X	R	S	I	C	O	A	A	K
G	T	C	M	A	S	T	E	R	T	R	U	S	T	S
D	S	N	E	S	E	A	G	J	Y	L	I	V	E	J

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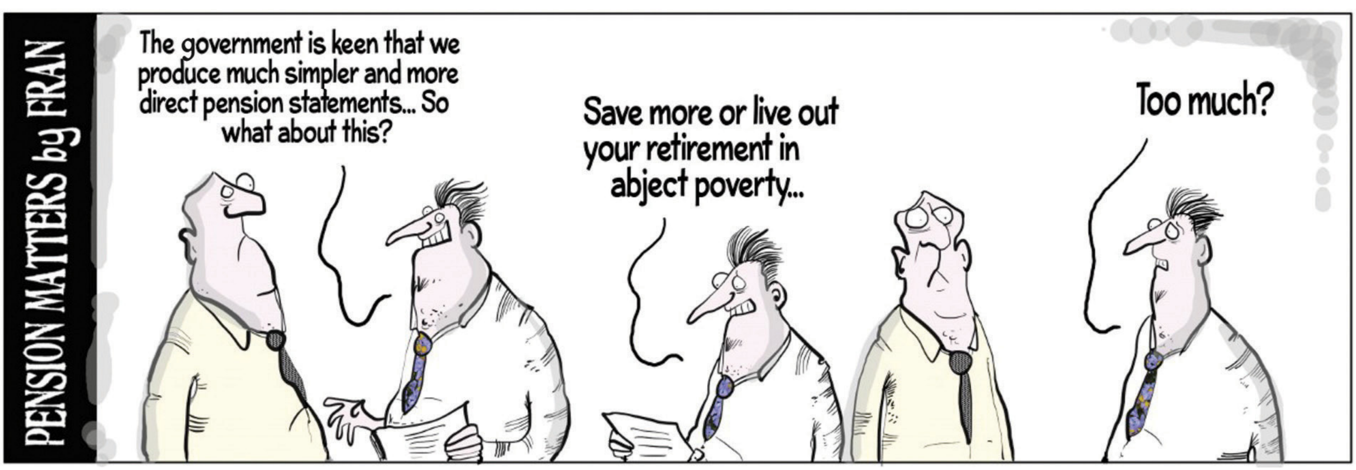
DASHBOARD
EMERGING MARKETS
MASTER TRUSTS
OPEN FINANCE
PAYROLL
SCAMS
SMALL POTS
SUSTAINABILITY

I know that face...

Answer at bottom of page



I know that face... Answer: SPP Investment Committee member, Robin Hames

Please see the roles we are currently recruiting for.
To see a full job description for each, please visit **www.pensionsage.com/jobs**

Pension Wise Guidance Specialist
Locations: Allerdale - Kendal, Barrow in Furness, Workington and Carlisle.
Job Reference: Allerdale
Salary range: £25,481.00 to £26,511.00
FTE: 1
Part Time or Full Time: Will accept part time or full time

Pension Wise Guidance Specialist
Location: Bognor
Job Reference: Bognor
Salary range: £25,030 pro rata
FTE: 0.6-0.8
Part Time or Full Time: Part Time

Pension Wise Guidance Specialist
Locations: Coventry
Job Reference: Coventry
Salary range: £27,358
FTE: 1
Part Time or Full Time: Full Time
Fixed term until March 2022

Pension Wise Guidance Specialist
Locations: Essex and East Herts, with cover to Herts & Beds when required
Job Reference: Essex and East Hertfordshire
Salary range: £30,506 pro rata
FTE: 0.4
Part Time or Full Time: Part Time

Pension Wise Guidance Specialist
Locations: Gloucestershire Area
Job Reference: Gloucestershire
Salary range: £27,041
FTE: 0.5
Part Time or Full Time: Part Time
Fixed term until March 2022

Pension Wise Guidance Specialist
Locations: Portsmouth
Job Reference: Portsmouth
Salary range: £25,030 pro rata
FTE: 0.6-0.8
Part Time or Full Time: Part Time

Pension Wise Guidance Specialist
Locations: Taunton - Taunton, Weston-Super-Mare, Exeter
Job Reference: Taunton
Salary range: £24,000
FTE: 1.5
Part Time or Full Time: Will accept part time or full time

Pension Wise Guidance Specialist
Locations: South Bucks / North Berks - Aylesbury / High Wycombe / Slough and surrounding areas
Job Reference: High Wycombe
Salary range: £27,000 - £30,000
FTE: 1.2
Part Time or Full Time: Will accept part time or full time

Pension Wise Guidance Specialist
Locations: Oxfordshire / North Bucks – Milton Keynes / Bicester / Oxford and surrounding areas
Job Reference: Milton Keynes
Salary range: £26,000 - £28,000
FTE: 1.3
Part Time or Full Time: Will accept part time or full time

Pension Wise Guidance Specialist
Locations: North Tyneside - Newcastle upon Tyne, Northumberland, North Tyneside & Gateshead.
Job Reference: North Tyneside
Salary range: £24,969.60
FTE: 1
Part Time or Full Time: Will accept part time or full time

Pension Wise Guidance Specialist
Locations: Shropshire county and possibly Telford
Job Reference: Shropshire
Salary range: £27,741
FTE: 0.5
Part Time or Full Time: Part Time
Fixed term until March 2022

Pension Wise Guidance Specialist
Locations: Herts and Beds, with cover to Essex when required.
Job Reference: Hertfordshire and Bedfordshire
Salary range: £30,506 pro rata
FTE: 0.4
Part Time or Full Time: Part Time

Pension Wise Guidance Specialist
Locations: Wiltshire, Bath or Bristol
Job Reference: Wiltshire
Salary range: £26,000 - £28,000
FTE: 0.6
Part Time or Full Time: Part Time

Pension Wise Guidance Specialist
Locations: Rushmoor
Job Reference: Rushmoor
Salary range: £25,030 pro rata
FTE: 0.6-0.8
Part Time or Full Time: Part Time

Pension Wise Guidance Specialist
Locations: Wolverhampton, Birmingham and possibly Dudley, Walsall
Job Reference: Wolverhampton
Salary range: £25,481 per annum, rising to £27,741 per on successful completion of training and assessments
FTE: 1.7
Part Time or Full Time: Full Time and Part Time
Fixed term until March 2022

Closing date for applications: 15th November

Successful candidates must be able to attend an online induction programme, exact dates TBC.

Unfortunately due to the high volume of applications we will only be able to respond to successful candidates.

Pension Wise is a free and impartial government service that offers people guidance on their defined contribution pension options. Citizens Advice offers both telephone and face-to-face Pension Wise appointments in over 300 locations.

You'll be part of a service that has helped over 300,000 people in the past 5 years offering them valuable and life changing guidance that gives them the confidence to understand their pension and how to get the best value out of them. In providing this necessary and impartial service you'll see positive and rewarding results for the people you help. We receive fantastic feedback directly from the customers who use the service - Pension Wise has consistently received over 94% customer satisfaction scores.

You'll be expected to supply accurate and relevant information and guidance on pension options and choices. You'll need to have a good foundation knowledge of pension law and practice, gained in a pensions role, as well as a thorough understanding of a broad range of pension arrangements, both occupational and personal. You also should have an understanding and an ability to keep pace with wider retirement issues.

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Our London office of 210 people manages £12.2bn* of direct equity and debt and £3.0bn* of unlisted indirect investments. In the UK we have extensive successful experience of managing portfolios to both MSCI relative and real return performance targets as well as assets and strategies targeting index-linked and absolute returns (for equity and debt investments).*

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2. ULP provide bespoke solutions and approach a wide selection of Insurers to scope the most appropriate and competitive cover.
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